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NATIONAL ACCOUNTS AND BALANCES: SYSTEM OF NATIONAL ACCOUNTS (SNA)

Report of the Economic and Social Commission for Asia and
the Pacific Meetings on the revision of the System of
National Accounts (SNA)

SUMMARY

The present report contains a summary of the main conclusions and recommendations emanating from two meetings held by the Economic and Social Commission for Asia and the Pacific on the revision of the System of National Accounts. The first meeting was organized for countries of the Asian subregion and was held in Bangkok from 15 to 24 August 1990. The second meeting was organized for countries of the Pacific subregion and was held in Suva from 29 August to 7 September 1990. The full reports of both meetings are available in English only upon request.

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INTRODUCTION

1. The two meetings organized by the Economic and Social Commission for Asia and the Pacific (ESCAP) on the revision of the System of National Accounts (held in Bangkok, from 15 to 24 August 1990, for the Asian subregion and in Suva, from 29 August to 7 September 1990, for the Pacific subregion) provided the opportunity for the statisticians in the region to reflect and comment on the main concepts and classifications recommended by the revised SNA. The main focus of the discussion was the document entitled "System of National Accounts (SNA) Review Issues" prepared by the member organizations of the Inter-Secretariat Working Group on National Accounts. This document contains the most updated information on the revision of the SNA. The preliminary draft chapters of the revised SNA are considered as work-in-progress, since not all of them have been discussed by the Expert Group on SNA Co-ordination and they do not reflect yet those issues which are still under discussion.

2. What follows is a summary of the comments and conclusions arrived at by the participants in both meetings. Introductory explanatory statements, along the lines of what is included in the discussion document mentioned above, were made for each topic discussed below, but are not reflected in this report due to lack of space. For more detailed information on the discussion of each individual meeting, reference may be made to the full reports of each meeting which are available in English. Copies of the individual reports may be obtained from the Statistical Division of ESCAP or from the Statistical Office of the United Nations Secretariat.

I. MAIN CONCEPTS AND CLASSIFICATIONS OF THE REVISED SNA

A. Integrated analysis of production, income generation and income distribution

1. Statistical units

3. Implementation of a cross-classification of value added components by activities and institutional sectors would be difficult because of the orientation of data collection towards value added compiled on the basis of establishment data.

4. Particular difficulties were mentioned with regard to identifying separate establishments of a homogeneous nature in the group of small-scale producers that would generally be included with the household sector. In some countries the majority of enterprises consisted of only one establishment. Furthermore, international recommendations on industrial statistics did not include any guidelines as to the institutional dimension of establishment data. These guidelines would have to be revised.

5. Conclusion: The importance of adopting the institutional unit as the basic unit for compiling the complete set of accounts was recognized. Also the need was recognized for the continuation of the use of establishments for measurement of output, intermediate consumption and value added by industry.

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2. Alternative income concepts related to production

6. Participants commented on the coverage of the new income concepts. Some thought that if low-cost housing was provided as a result of rent controls, final consumption should reflect the market rent and not the low subsidized rent. In such circumstances implicit subsidies on low- or zero-interest housing loans to employees should be included in compensation of employees. This would particularly apply in circumstances of high inflation.

7. In one country where there were no funded pension schemes, instead of following the SNA treatment of imputing premiums as part of compensation of employees and then including premiums and claims in the secondary distribution of income account, national accounts included the pension benefits as part of compensation of employees and did not include any transfers in the secondary distribution of income account.

8. It was noted that as interest was not taken into account in the valuation of government services, interest payments on public external debt should not be included in the primary distribution of income accounts and thus should not affect primary and national income. They should be considered as transfers in the secondary distribution of income account and thus affect disposable income.

9. Conclusion: There was general acceptance of primary income, the concepts of entrepreneurial income and mixed income, which were particularly relevant for use in developing countries. However, further clarification was needed on the treatment of some transactions, such as interest on public debt, consumer debt, unfunded welfare and pension fund transactions, and housing benefits, such as subsidized rents.

3. Production boundary

10. Some participants preferred the 1968 SNA production boundary, which included goods production only if it were based on primary products as intermediate inputs. They thought that the distinction to include all goods, and services only if marketed, was based too rigidly on the distinction between goods and services, which still needed further specification.

11. A specific example was presented which indicated an anomalous consequence of the recommendation to include all goods production whether produced for the market or not, namely the catch of fish, which was in most instances consumed in the households carrying out the fishing activity. Prior to consumption, the fish needed to be treated in order to preserve it for a longer period of time. The output of the preservation activity, which was basically a service activity carried out within the household, would have to be added to the value of the fish, as that would be the value of the final product generally sold in the market.

12. Some participants thought that water carrying should not be included because it would unduly increase the value of gross domestic product (GDP) and the corresponding coverage of employment, and give the impression that the country was

better off than it really was. Some pointed out that the contribution to GDP of water-carrying activities might be very different from those of fruit and fuelwood gathering, where the contributions were computed indirectly through the valuation of output for which a market price might be available. On the other hand, the view was expressed that the purpose of including water carrying was to assess net product generated and not to imply any measurement of well-being.

13. Some participants argued that own-account production of household services might have to be included in production, in order to establish comparability of data series over time. Excluding household services from the production boundary would distort the comparison of GDP estimates for developed and developing economies.

14. Some thought that SNA should be more precise in describing what were major repairs in the case of owner-occupied dwellings, instead of leaving it to national accountants to apply those rules to the particular circumstances of their countries.

15. Conclusion: The participants expressed reservations on some of the suggested expansions of the production boundary. In particular, they did not agree to include in the production boundary the activity of carrying water for own use, as that was viewed as a service activity. The expert groups were asked to examine carefully the expansion of the production boundary in view of its implications for the measurement of employment and welfare.

4. Quasi-corporations versus unincorporated enterprises,
public and private

16. Some participants questioned why the term quasi-corporations was deleted from the title of the financial and non-financial corporations sectors. Instead of the term "corporation", the term "enterprise" might be used in order to distinguish between corporations as legal entities and institutional units that were delineated by economic criteria.

17. Some participants thought that in distinguishing private from public corporations, much more prominence should be given to the underlying criterion of control in addition to that of ownership, but at the same time stressed the need for greater clarity in the SNA documentation. Others suggested that the ownership criterion for distinguishing public from private corporations be given more prominence and that even the control criterion might have to be deleted entirely from the definition of public corporations as distinct from private ones.

18. Some participants suggested that the new guidelines on the coverage of private unincorporated enterprises would require that the coverage of surveys of household economic activities be adjusted to include, for instance, money-lenders.

19. Some participants wondered whether tax records would be adequate to identify quasi-corporations among private unincorporated enterprises. They wondered whether the use of that criterion - identification through tax records - could be treated

as equivalent to the availability of separate accounts and information on withdrawals of entrepreneurial income, which was stipulated as a condition for the identification of those units in the revised SNA.

20. Conclusion: The participants had no objections to including financial unincorporated enterprises with the household sector. While there were queries from some participants, the majority of the participants were indifferent to changing the title of the non-financial and financial corporate and quasi-corporate enterprise sectors to non-financial and financial corporate sectors.

5. Market and non-market production, including public versus private corporations

21. Several participants expressed the view that the criterion of intention to make a profit should be used as an important supplement to the rule of 50 per cent cost coverage. In some instances it might have to supersede that "mechanical" rule. In the same context, it was pointed out that public monopolies were clearly market producers if they derived large profits from their monopolistic position. The question was raised whether public monopolies should be treated as non-market producers, if as a result of government policy they made losses rather than profits. There was a further need for guidelines in those cases where most sales were made to the Government.

22. One instance was mentioned of an enterprise (a resort hotel) which had considerable losses in its operations, but where those were compensated by revenues (property income) from its investments; the question was asked whether property income receipts should be taken into account in assessing the cost coverage of producing units.

23. Conclusion: The classification of producers into market and non-market, based on the proportion of production cost covered by output, remained ambiguous to some participants. That ambiguity was partly due to the strong association of the terms "market" and "non-market" with whether the goods produced were actually marketed or not. It was also suggested that the criteria used in the distinction between market and non-market producers should be reviewed. In particular, the expert groups might consider classifying producers, including corporations, on the basis of their behaviour or objective instead of using the 50 per cent cost coverage criterion.

6. Financial intermediaries: bank and insurance services

24. One participant suggested that interest in the primary distribution of income account be recorded in terms of actual interest paid instead of showing only the pure interest flow after deduction of a service charge.

25. There was much discussion on the allocation of bank service charges. While some thought that they could be allocated on the basis of loans and deposits, others thought that they could be linked to the actual interest paid. There was

also a proposal to use the allocation of compensation of employees between different types of banking functions as a key in the allocation of the bank service charges between sectors. It was also pointed out that in circumstances when there was specialization of banks in different types of functions, there would be less difficulty in allocating the imputed service charge between different uses.

26. Other participants proposed that the output of banks be calculated on the basis of inputs. That would require that a link be established between profits of banks and their operating surplus, eliminating various elements, such as write-offs and provisions for bad debts, that banks might have included in the calculation of profits.

27. Questions were raised on the calculation of imported bank service charges. It would be difficult to arrive at such information, as it would require surveying foreign banks.

28. One participant suggested that the term bank service charge be maintained, because most users were familiar with it. It would be an additional difficulty to explain to users that the term had now changed to financial intermediation charges.

29. Some participants suggested that in calculating the output of insurance services, not only should interest on reserves be taken into account but also capital gains and losses. It was reported that in one country, insurance companies took such gains and losses into account in the calculation of their gross premiums.

30. Some participants questioned whether development banks would be included as financial corporations. Many of those banks were only distributing funds from the government and did not operate on the financial market.

31. There was considerable discussion with regard to the treatment of money-lenders, who fulfilled a very important financial function, especially in the rural areas where there was less access to formal banks. The expert groups were requested by the Seminar to review such cases and determine what their imputed output would be and which part of their revenues would be considered property income.

32. Conclusion: There was general agreement on the allocation of the imputed service charge of financial intermediaries to the various uses, that is, industries and final demand categories. The participants recognized that the change in terminology from "imputed bank service charge" to "imputed financial intermediation service charge" was necessary to include the output of both banks and other financial intermediaries. There was, however, no agreement on what criteria to use in allocating the service charges between uses.

33. With regard to the calculation of the insurance service charge, it was accepted as the difference between gross premiums plus interest on the reserves minus claims. The suggestion to incorporate capital gains and losses in the calculation of gross output was not accepted but was referred to the expert groups for further study. In addition, the SNA expert groups were requested to review the criteria for allocating the insurance service charge among uses.

7. Imputation of rent on government buildings

34. Several questions were raised on the coverage of government buildings to be included in the rent imputation. Some wondered whether buildings that were normally not rented, such as historical buildings, temples and prisons, would have to be included in the imputations. Others expressed reservations about introducing the concept of positive operating surplus as that would be inconsistent with the valuation of the other productive activities of the government sector. Also was mentioned the difficulty of finding appropriate rents for buildings that were normally not rented. Participants felt that the problem was a different one from the one encountered in the imputation of rent on owner-occupied dwellings.

35. Those in favour of making the imputations mentioned that in some countries Governments had increasingly constructed their own buildings, rather than rent them from the private sector. If no imputations were made, the contribution of the government sector to GDP would actually be reduced. Also, if no rents were imputed, outlays to construct government buildings would be treated as intermediate consumption of the government rather than as capital formation, a consequence which would be unacceptable. In another country, government-owned buildings were transferred to a government agency, which actually charged rents to other government agencies. For comparability over time, it would be appropriate to impute rents on government buildings for previous years. In the latter case, a separate establishment with an operating surplus, which would be classified separately from the units producing other government services, was preferred. It was also pointed out that if the government building rent imputation were introduced in the system, it should not be restricted only to the government sector, but should apply equally to non-profit institutions.

36. With regard to the introduction of consumption of fixed capital on roads, dams and government structures, it was pointed out that such treatment was already applied in one of the countries. The incorporation of such consumption of fixed capital was needed in order to account correctly for the cost of capital in the production of government services; there would be a consequent future need for international agencies to use net concepts of income instead of the present gross concepts of GDP and gross national product (GNP) for national and international policy purposes.

37. Conclusion: The majority of the participants favoured imputation of rent for government buildings. However, they pointed out the practical problems that might be encountered in the imputation of the rental value.

B. Valuation

38. It was suggested that the separate identification of basic values and product taxes as components of market values of intermediate consumption and final demand should be explicitly incorporated in the central framework of institutional sector accounts and the supply and use table. Such separate identification of product taxes would facilitate input/output analysis which would require a common valuation of output and intermediate consumption in basic values.

39. Conclusion: The participants accepted the valuation options proposed for output and intermediate demand. They felt that they were flexible enough for use by countries with different systems of prices and taxation.

C. Integration of stock analysis with traditional flow analysis of the national accounts

40. One participant emphasized that the asset classification in the revised SNA would have to be flexible enough to accommodate new assets when they became relevant in the future. As an example, the growing importance of fishing grounds as an economic asset because of the increasing scarcity of fish stocks was mentioned.

41. As regards the moment of recording of assets, some doubts were expressed concerning the appropriateness of the change of ownership criterion, since in some cases, for example, the construction of dwellings commissioned by an individual, no change of ownership took place.

1. Coverage and classification of produced assets

(a) Software

42. Doubts were expressed about the feasibility of including in-house software as capital assets. There were problems of obtaining information on those activities and also problems of valuation, because the same persons might be involved in the development of software and other functions.

43. Some thought that in-house software development might be much more important than purchased software and that there might therefore be no justification for excluding it. Others felt that only systems software should be included and not application software.

44. Conclusion: There was general agreement to include outlays for the acquisition of software in capital formation. However, the expert groups were asked to further examine whether they should be classified as tangible or intangible produced assets. The experts were also asked to clarify whether software developed in-house should be included, and if so, how it should be valued.

(b) Mineral exploration

45. There were many questions asked with regard to the coverage of mineral exploration expenditures, for example, whether they should include the studies that were being made prior to exploration, the excavation cost and the cost of geological surveys.

46. Some commented that inclusion of all exploration expenses as capital instead of only expenses for successful explorations would unnecessarily inflate gross fixed capital formation. They preferred that exploratory expenditures be classified as capital only if there was a reasonable probability of success, which was of course difficult to determine.

47. A problem specific to small island economies was that foreign companies were licensed on a year-to-year basis for exploration. Once it became clear that there was not much chance of success, they would abandon the exploration, and the knowledge gained by them remained without value for the country. On the other hand, for the country where the oil company was resident, unsuccessful exploratory expenditures could be very valuable as they generated knowledge which could be used in future explorations. There was an apparent conflict between the assignment of such expenses to capital formation in the country where the exploitation took place and in the country where the oil company was resident.

48. Conclusion: The participants were divided on how to treat mineral exploration expenditures. Some agreed to treat such expenses as capital formation, while others wanted to continue the present SNA treatment of including all such expenses in intermediate consumption. The third option of treating only the cost of successful exploration as capital formation was generally discarded, because of the difficulty of determining within the time frame of the national accounts whether such exploration would be successful or not.

(c) Research and Development (R and D)

49. Data problems were mentioned as the major obstacle to including research and development as capital. The majority thought that it was difficult to identify expenses for R and D and to value the resulting asset.

50. One participant suggested that the output of research and development should be valued at the market value of the patents or copyrights if they existed.

51. Conclusion: The participants were undecided on the principle of treating expenditure on R and D as capital formation. They were also not clear on what would be the corresponding asset and whether such an asset would actually contribute to future production in the present circumstances prevailing in the countries of the region. Therefore, it was suggested that the expert groups provide further clarification on that point and on the coverage of R and D expenditures proposed to be classified as capital formation, before a final position was taken.

2. Environmental accounting: links to SNA, environmental assets, and natural growth products

52. Suggestions were made with regard to the coverage of natural assets in the SNA asset boundary. These included natural forests, coral reefs, fish stocks, mangrove swamps, beaches and potable water. While inclusion of such assets might be advisable, it was pointed out that practical data problems existed in most of those areas.

53. Those in favour of extending the asset boundary to include natural assets mentioned, among others, that the cost of deforestation of virgin forests should be taken into account in the calculation of GDP. Though this would reduce GDP and probably lead to negative value added in the forestry sector, that would be precisely the message which needed to be given to policy makers.

54. The suggestion to include a depletion allowance in the calculation of net domestic product (NDP) was supported by some participants. Particular mention was made of the reduction in coral reefs which would have to be taken into account in proper accounting of NDP.

55. Others argued that the inclusion within SNA of environmental accounts, even as satellite accounts, would remain a long-term goal for their countries.

56. During the discussion, some participants favoured the proposal in principle to estimate output of natural growth assets on the basis of growth instead of harvest; they pointed out that the growth orientation would be the only feasible manner in which quarterly accounts could be set up. Others, however, thought that this would not resolve the links between output and input in agriculture. One participant pointed out that his country did not include growth of livestock in output and capital formation, mainly because of data problems. Another participant pointed out that in the calculation of output, not only reproduction of livestock but also growth in weight of livestock should be taken into account.

57. Some participants asked whether growth of fish in the ocean should also be included in output. Others thought that inclusion of that type of asset would be difficult because fish migrated from one territorial base to another. On the other hand, it was pointed out that studies of the stock of fish were being made as well as of their movements between different parts of the ocean. It was unlikely that estimates of national stock could be produced, although regional estimates would be. It was possible to consider shares of that regional stock as a national asset. Such treatment was already possible in the case of river and lake fish.

58. Conclusion: The participants accepted in principle the inclusion of developed and cultivated environmental assets in the asset boundary of the system. They were not, however, in full agreement with the proposed asset classification and coverage. Among the elements mentioned which would need further examination were the classification of land and assets on it, the inclusion of water and the treatment of natural growth products. It was furthermore suggested that the classification be made more flexible so that future changes in the coverage of assets could be easily accommodated. Finally, participants supported the idea of establishing environmental satellite accounts in the revised SNA.

3. Military durables

59. Data availability was mentioned as the main reason for not distinguishing between those military durables to be included as assets and those that would be part of final consumption. Opponents of extending the coverage of military durables in gross fixed capital formation thought, however, that they could accept

the inclusion of schools, hospitals and so on for the same reason as mentioned by the expert groups.

60. Those who argued in favour of including all military durables in gross fixed capital formation pointed out that non-inclusion of weapons and similar military hardware in capital formation, on the grounds that they were very much at risk during war, could not be easily defended as civilian assets could also be destroyed in wartime. It was also mentioned that treating large capital outlays of an irregular nature on military hardware as government final consumption expenditure would artificially increase government consumption from one period to another, particularly in small island countries.

61. Conclusion: There was general agreement that expenditure on construction by the military which could be used for civilian purposes should be treated as capital formation, although it would be difficult to obtain the required data in some countries. Some participants were in favour of treating all expenditures on military durables as capital formation.

D. Role of the household sector in the economic process

62. One participant proposed an alternative hierarchy for breaking down the household sector into subsectors: agricultural and non-agricultural households at the first level of the hierarchy; within agricultural households a distinction between labourers and operators; within operators a distinction based on the size of the land owned; within non-agricultural households an urban-rural distinction; and further breakdowns based on the International Standard Industrial Classification of All Economic Activities (ISIC) and the International Standard Classification of Occupations (ISCO). Some suggested that own account workers in agriculture should be distinguished from those in other sectors. Most participants thought that subsector categories, such as the ones proposed in the revised SNA, would come at a lower level of the hierarchy.

63. Some participants argued that the use of the reference person as the one bringing in most of the income would not work well in the case of subsistence production activities.

64. Difficulties were mentioned in linking the classification of households by subsectors to the production accounts of the unincorporated units that are included in the household sector and that are classified by economic activities; hardly any survey would cover at the same time the household revenues and expenditures and production information.

65. Conclusion: The participants recognized the analytical value of the proposed subsectoral classification of households. However, some thought that the classification might not be sufficient for the needs of the countries. Also, operational difficulties might not allow them to adopt the classification readily.

1. Formal versus informal activities

66. Most participants agreed that there was a need to have a more specific distinction between formal and informal activities than the one based on the alternative distinction between corporate and unincorporated activities proposed so far by the expert groups.

67. Several criteria were mentioned for making an operational distinction. One suggestion was to include in the informal sector all production units that are unincorporated, have no legal basis, are managed by households and have a limited number of employees. Another was that such criteria would be also applied to quasi-corporate units which, therefore, could be included in the informal sector as well. There were also those who suggested to include in the informal sector only subsistence activities, while there were others who suggested to include all subsistence, non-market and non-monetary activities. On the other hand, there were alternative definitions of the formal sector, either consisting of the units that had business licenses, or alternatively as including all units that were legally constituted and/or were covered in establishment surveys.

68. Conclusion: On balance there was a general feeling that the distinction between corporate and unincorporated enterprises as proposed in the revised SNA might not be an adequate approximation of the distinction between the formal and informal sectors.

2. Non-profit institutions, including community activities

69. One participant argued that as a matter of principle private non-profit institutions should not be included with the household sector and should remain as a separate sector as recommended by the 1968 SNA.

70. Most participants thought that it was essential that imputations be made for the cost of voluntary labour. Some noted the anomalies which would occur if no voluntary labour cost was imputed and the capital good thus constructed was sold on the market at a much higher price. On the other hand, it was pointed out that there were many difficulties in getting the correct value for the labour input. Such valuation faced the same problems as would be encountered in valuing the labour involved in water carrying, firewood gathering and so on.

71. Conclusion: There was a general sentiment that non-profit institutions serving households should be included as a subsector of the household sector as was proposed. It was furthermore agreed that non-profit institutions would not be identified on the basis of their legal status but rather on the basis of their economic behaviour.

3. Final consumption expenditure, actual final consumption, disposable and adjusted disposable income

72. Some participants questioned the usefulness of the concepts of actual consumption of households and adjusted disposable income, except for the purpose of international comparisons of household consumption levels between countries and for comparisons over time. It was mentioned that adding individualizable final consumption expenditure by the government to that of households was not meaningful as households could not decide about its use.

73. Others thought that there were serious problems in allocating individualizable consumption from government expenses to individual household subsectors, even though they recognized that actual final consumption classified by household subsectors might be an interesting concept for the measurement of poverty between different groups of the population. While there may be allocation difficulties when government data are used, there may be measurement problems when the data are obtained directly from household surveys.

74. Conclusion: The participants were in favour of incorporating in the SNA the concepts of actual final consumption and adjusted disposable income.

E. Transfer of resources between countries

75. Participants stressed the need for clarification of the definition of centre of economic interest with respect to the type of economic activity (production, consumption) involved, particularly for the classification of individuals.

76. Specific questions were asked on the residence status of individuals, such as refugees, contract workers or migrant workers, who might stay longer than one year in a country but never permanently. Some participants wondered why students were excluded from being residents of the host country because they did not contribute to production and income generation. If that were so, such an orientation of the residence criterion was criticized as being too production-oriented. Finally, questions were raised on the residence status of the Pacific Forum Line, which is a shipping company jointly owned and managed by several countries of the Pacific subregion.

77. More specific guidelines were requested on how to deal with direct investment of enterprises operating in the country but which were established as "paper companies" abroad in order to avoid taxes and the consequences of political uncertainty in the future. One participant wondered why a distinction was made between construction and installation companies which both stay only temporarily in the host country without establishing firm economic residence.

78. Conclusion: The participants accepted the centre of economic interest as the basis for determining residence. However, several found difficulty in accepting the one-year residence guideline in all cases as the operational criterion to define centre of economic interest. It was therefore suggested that the expert groups should review the operational one-year rule and refine it further in order

to give guidance on the residence treatment of specific individuals and also review the coverage of revenues to be included in GDP for expatriates who received a large part of their remuneration outside the host country, such as technical assistance personnel.

1. Exports and imports of goods and services: merchandise and factor/non-factor services

79. Several participants gave examples of difficulties related to using the change of ownership as the basis for recording external transactions, particularly because foreign trade statistics did not use this criterion in recording imports and exports. Furthermore, recording sale of goods on consignment on the basis of ownership change was difficult because it was not possible to determine which of those goods recorded in foreign trade statistics would return and which would actually be sold. Another difficulty mentioned concerned the purchase and sale of fuel that was imported into the country and subsequently sold to a foreign non-resident airline; a question was asked whether such a sale should be consolidated out of the external account.

80. One participant noted that while it was generally not too difficult to measure the export of services, it was very often not possible to measure their import.

81. Several participants questioned the feasibility and usefulness of changing imports from c.i.f to f.o.b. valuation; they thought that it would be better to align the manual on balance of payments (BPM) with the 1968 SNA rather than vice versa. Others mentioned that it might be difficult to estimate the global adjustment needed to convert commodity detail of import data in c.i.f. values to f.o.b. values for total imports. A special difficulty was mentioned with regard to the distinction between foreign and domestic insurance and freight charges on imports in the case of the earlier mentioned Pacific Forum Line, which was owned by several countries in the Pacific subregion.

82. Most countries represented in the meeting reported that they had been registering on a net basis goods for processing entering and leaving the country. The reason was that only the net value of such products was taxed and that recording the flows on a gross basis would be incompatible with past tax practices. It was pointed out that in that case the tax system would have an incorrect influence on the recording of national accounts flows.

83. Conclusion: No specific conclusions were reached as a result of the discussion.

2. Reinvested earnings

84. One participant opposed the introduction of an imputation for the flow of reinvested earnings of direct investment enterprises in the external transactions accounts of SNA. While he strongly supported the harmonization of SNA and BPM, he argued that this could be achieved without changing the present SNA treatment. He would prefer showing reinvested earnings as a memorandum item in the national

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accounts. Others supported the recommended change of SNA in the direction of BPM as such treatment would better reflect the measurement of foreign interests in domestic enterprises.

85. A question was raised concerning how to treat the revenues of a fund that was invested outside the country and from which the government annually withdrew interest revenues; the capital itself could not be drawn down. Should such a fund be considered of a direct investment operation and should revenues generated by the fund be included as reinvested earnings even if the revenues are not used by the country in question?

86. Conclusion: Discussion was quite limited, but conflicting views were expressed with respect to the issue and therefore no final agreement was reached on whether to change SNA with regard to reinvested earnings.

3. Valuation of external transactions, multiple exchange rates

87. Some participants requested specific guidelines on which type of exchange rate should be used (actual, black market rate or other rate, and average rates or rates at a specific point in time), in particular for reinvested earnings, and to value foreign assets owned by residents in the balance sheets.

88. Most countries in the Pacific subregion reported that their currencies had close links to the currencies of Australia, New Zealand or the United States of America, and that there was as a result, very little variation over time in the value of the local currencies in terms of US dollars. Therefore, in most countries, average official exchange rates were used in the conversion of external transactions to local currencies. Black market rates and revenues resulting from those were of very little importance, and no special efforts were made to cover revenues thus obtained in GDP.

89. Conclusion: Without reaching any final conclusions, most participants felt that multiple exchange rates were a subject that would require further elaboration in the revised SNA as they reflected a very important element in the accurate measurement of economic activities in the countries of the region.

F. Financial instruments, financial sector and financial accounts

90. The view was expressed that the inclusion of unincorporated financial intermediaries within the household sector might make it difficult to analyse capital and financial flows in the system as financial units are spread over two sectors. In the same context a question was asked where to classify credit co-operatives which mobilized funds for the rural sector.

91. One participant opposed to include financial auxiliaries in the coverage of financial corporations as those units had clearly very different functions from other units in the sector.

92. With regard to the classification of financial corporations, it was suggested that at the second level of detail a distinction should be made within "insurance companies and pension funds" between life insurance schemes and pension funds on the one hand and casualty insurance schemes on the other.

93. Conclusion: The majority of the group were in favour of the inclusion of financial auxiliaries within the financial sector. In general the proposed classification of the financial sector was found acceptable.

1. Financial instruments: gold, financial leasing new financial instruments

94. It was pointed out that households in the countries of the ESCAP region often used household durables as an asset similar to financial assets. Therefore, it was questioned whether it would be sufficient to treat household durables as a memorandum item in the balance sheets as had been proposed, rather than as a full asset.

95. Another question was raised about the treatment of an aircraft which had recently been leased for a period of four years from a foreign lessor who charged 65 per cent of the operating cost to the lessee, with an option to buy the plane after the contract expired. Even though there was the option to buy the plane at the end of the contract, the lease had many of the characteristics of an operational lease.

G. Analysis of inflation

1. Chain indices

96. Most of the participants stated that they were not familiar with chain indices and requested that literature on the subject, in particular with reference to country practices, should be made available to countries in the region.

97. Other participants mentioned that because of problems of additivity and the need for comparisons over a number of years, chain indices would be less useful.

98. Those not in favour of chain indices emphasized the use of a normal year as a base year. Averaging two or three years was suggested for some erratic series as a method for overcoming the choice of an abnormal base year.

99. Conclusion: The participants appreciated the introduction of chain indices in SNA. Nevertheless, they thought that there were serious practical difficulties in implementing them. Furthermore, it was stated that it would be very difficult to justify and explain to users the change to chain indices. The suggestion to publish both types of indices (fixed weights and chain) might confuse users.

2. Unique products

100. During the discussion it was pointed out that, especially in the case of some imported equipment, products might be unique to some countries but not to others. Hence, it might be possible to construct a price index which combined information from the producing country (output price indices) with an index reflecting changes in the exchange rate between the two countries.

3. Price and volume measures for non-market goods and services

101. It was suggested that further work needed to be carried out in determining the output of non-market services. For example, it was argued that it was too simplistic to assume that education should be extrapolated by teaching hours, as there was more to the output of education than simply hours of teaching provided (e.g., student counselling, organizing extra-curricular activities).

4. Terms of trade measures

102. Many countries did not estimate trading gains/losses. In one country the calculation was made by using the implicit price deflator of imports of goods and services to revalue the balance of trade.

103. One participant pointed out that using an arithmetic average of export and import deflators in the numeraire of the terms of trade measure could lead to biased results; he suggested the use of a weighted average.

104. Conclusion: While there was little experience in the region with regard to the estimation of trading gains and losses, most participants did agree with the suggested formula for the calculation of terms of trade effects. What was considered most critical was the choice of the appropriate price index to deflate the balance of trade.

5. Real national disposable income

105. It was suggested that in calculating the implicit price deflator for gross final domestic expenditure, it would be preferable to exclude changes in stocks from the calculation. Thus, the implicit price deflator would be calculated as the quotient of the nominal and constant price values of final consumption expenditure plus gross fixed capital formation. Experience had shown that any deflator which included changes in stocks was likely to be erratic.

106. Conclusion: While there was little discussion of the topic, it could be surmised that participants supported the proposed inclusion in the revised SNA of the real income measures mentioned. The Seminar in Fiji noted that the issue was not relevant for many of the countries present, as their national accounting development had not reached that stage.

6. Quality changes

107. One participant questioned whether the approach to quantifying quality change was correct. It was argued that as GDP was a measure of production, the value of quality change should be calculated on the basis of the base year resource cost. An example was mentioned of a motor car engine which had undergone a specification change to run on unleaded petrol. In order to correctly value the change in production, the increased cost of the car would have to be reflected in a volume change, even though the car was not different from the user point of view.

108. Conclusion: Participants felt that quality change should be accurately reflected in the measurement of output, but considered that further consideration needed to be given to the basis on which quality change should be valued.

7. Revaluation of changes in stocks, including work-in-progress

109. Conclusion: Most participants stressed the fact that they had serious difficulties in obtaining reliable stock data from producers and traders in the first place, and that they were generally not in a position to estimate the changes in stocks correctly.

H. Role of the public sector

Classification of taxes, social transfers and other public sector transfers

110. Many questions were raised on details of the modifications in the classification of tax and non-tax revenues. There was general support, however, for the changes that had been introduced in order to align SNA and government financial statistics (GFS).

II. ACCOUNTS AND TABLES

111. There was very little discussion of the accounts and tables of the revised SNA. In this context, one participant reported on work that had been carried out on social accounting matrices in some countries in the subregion. The compilation of social accounting matrices (SAMs) had not generally been incorporated in regular statistical programmes, and as a result, there had been little impact on the development of national accounts in the subregion.

112. Conclusion: In general the participants found the accounts and tables of the revised SNA more comprehensive, integrated and of better analytical value than those of the 1968 SNA. Nevertheless, it was recognized that data collection must be strengthened in order to implement them. It was requested that countries should be provided with the complete set of tables, including the detailed supply and use table.

III. SNA REVIEW FROM THE REGIONAL POINT OF VIEW

113. There were a few issues that participants particularly wanted to have incorporated in SNA and which they thought had not been given adequate attention in the review process. Those included the development of regional accounts and quarterly accounts, the further breakdown of the household sector by socio-economic groups, the development of definitions for the informal sector and the development of productivity measures.

114. There were other SNA-related issues that participants felt were particularly important to the Pacific subregion, including the extension of the asset boundary to such areas as fishing stocks and mangrove swamps, and more broadly defined environmental assets, such as clean air and water. The Seminar welcomed the efforts of the Statistical Office of the United Nations Secretariat and the World Bank in jointly preparing a Handbook on Environmental Accounting. It stressed the need for the concepts used in the environmental accounts to be as consistent as possible with SNA, but recalled its preference that environmental accounts be developed as satellite accounts rather than as part of the central national accounts framework.

115. Most participants agreed that the revised SNA provided a much clearer set of conceptual guidelines than the 1968 system. The revised system would contribute to the understanding of national accounting and would thus facilitate its implementation. It was noted that as a result of better understanding, available data could be used more effectively in a more extensive elaboration of the system than was done in the past. In particular, it was mentioned that due to the lack of clarity in the 1968 SNA, institutional sector accounts had never been properly developed by many countries, even though data might have been available. Further guidance through handbooks was still needed because the revised SNA included many new elements, extension of coverage of existing items and new treatments of transactions, on which there was no experience with implementation in the countries of the region or indeed anywhere in the world.

116. The view was expressed that the revised system should include sufficient flexibility in its classifications and definitions of concepts that would permit countries in transition which formerly applied MPS to use the revised SNA.

117. It was agreed that more time was needed for countries to study the revised system from the points of view of statisticians and users. It was suggested that countries send their comments on the revised system to the Statistical Office of the United Nations Secretariat. It was further proposed that two more seminars be organized, one to review the comments of countries as conveyed to the Statistical Office and the other to review the final draft before submission to the Statistical Commission.

118. The Seminar noted that a further round of regional and subregional meetings such as the present one might not be held before adoption of the revised SNA by the Statistical Commission, both for financial reasons and because of the tight schedule of the revision process. Instead, an interregional meeting in early 1992 was being planned to which several Asian and Pacific countries would be invited.

IV. IMPLEMENTATION OF THE REVISED SNA

119. Many country participants felt there would be some difficulty in obtaining data to implement the revised SNA. However, it was generally agreed that the integrated framework of the revised SNA was more comprehensible and lent itself to a better understanding of the subject.

120. The view was expressed that in order to facilitate international comparability in national accounts statistics based on the revised SNA, it would be useful to establish a timetable for the implementation of the system.

121. The meeting was informed of the preparation by the Statistical Office of the United Nations Secretariat of a series of handbooks to assist national experts in the compilation of national accounts. It was suggested that the handbooks should highlight the issues which required different treatment from the 1968 SNA, and that it was necessary to have a methodology of data collection not only to obtain data for the future but also to impute data on the past in order to complete the time series. Countries were also asked to indicate the topics which were felt to be of priority and the level of detail contained in the handbooks. It was further mentioned that the compilers of the handbooks could greatly benefit from the experiences of some countries of the ESCAP region that had been actively engaged in national accounting. The Seminar recalled that a manual on non-monetary sector valuation had been prepared by ESCAP, the South Pacific Commission (SPC) and UNDAT in 1974. It suggested that the handbook should be updated and a further co-operative effort to hold a workshop on that topic should be undertaken.

122. The Seminar noted that technical assistance in various forms, such as regional advisory services on national accounts and organization of seminars, workshops and training courses, could assist countries in the implementation of the revised SNA. Mention was made of possible joint activities between ESCAP and the Statistical Institute for Asia and the Pacific (SIAP) or SPC in promoting the implementation of the revised SNA in the Pacific countries. It was also suggested that SIAP might consider conducting advanced workshops/seminars on national accounts. Quite apart from assisting in implementing the revised SNA, workshops focusing on the practical aspects of compiling national accounts were considered essential for the Pacific subregion.

123. Appreciation was expressed of the provision of advisory services in national accounts by the secretariat which would be even more essential in view of the SNA revision. It was suggested that one adviser was inadequate for the needs of the entire Asia-Pacific region. The Seminar noted with concern the critical inadequacy of travel funds for official missions by the current regional adviser and urged the secretariat to resolve the problem. It noted with appreciation that Australia and New Zealand were prominent in providing technical assistance to developing countries in the subregion. It welcomed the possibility of receiving help from the Statistical Office of the United Nations Secretariat and ESCAP in the formulation of proposals for funding support for projects designed to facilitate the adoption of SNA in countries.

124. The Seminar noted with interest that the Statistical Office of the United Nations Secretariat had developed software for the compilation of national accounts. That software was not yet user-friendly but could be adapted to country analytical needs and statistical facilities. The Statistical Office could undertake further technical missions to assist countries in utilizing the software.

125. While considering technical assistance indispensable in the process of implementing the revised SNA, the participants also noted the importance of convincing national administrations of the uses and relevance of national accounts in the management and development of their economies. It was also stressed that international organizations using national accounts aggregates in their policy-making would need to be made aware of the new concepts and particularly of the income concepts and of the consumption of fixed capital now recommended in the revised SNA.

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NATIONAL ACCOUNTS AND BALANCES: SYSTEM OF NATIONAL ACCOUNTS (SNA)

Final report of the Regional Seminar on National Accounts
convened by the Economic Commission for Latin America and
the Caribbean

SUMMARY

The present report contains a summary of the main recommendations and conclusions of the regional seminar on national accounts convened by the Economic Commission for Latin America and the Caribbean at the Brazilian Institute of Geography and Statistics, Rio de Janeiro, from 18 to 28 September 1990.

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I. MAIN CONCEPTS AND CLASSIFICATIONS OF THE REVISED SNA

A. Valuation

Valuation of production, intermediate consumption, final demand and value added

1. The discussion began with references to the three alternatives for valuating product flow and value added; these three alternatives were included in the supply and demand table contained in the production and income generation accounts. It was pointed out that the taxes on products not included in the value added of each branch of economic activity, in the context of the three valuation alternatives, should be added globally so as to obtain the gross domestic product in terms of market prices. It was emphasized that valuation in terms of basic prices had been the best from the theoretical point of view, but the two alternatives were included in terms of producers' prices for practical reasons.
2. It was remarked that such flexibility might affect international comparability of the data on the gross domestic product (GDP). It was explained, however, that total GDP would not be affected by the various valuation alternatives and that only its distribution by kind of activity would be altered.
3. With regard to the difficulty of reconciliation, where basic prices were used, of the values of taxes on products which had to be deducted from producer-price values and the corresponding taxes collected by the Government, it was stated that such reconciliation was difficult to achieve, particularly for value added tax (VAT), in situations where tax and deduction régimes existed. In practice, net VAT recording was used in preparing national accounts and that tax was not a cost for the production unit. Net treatment had been implicit in the valuation recommended in the 1968 SNA.
4. Participants in favour of the gross VAT treatment remarked that, in their countries, VAT existed alongside other taxes on products and that, in some of those countries, VAT had gradually replaced several other types of taxes on products, so that the proposal not to include VAT in the producers' price would generate non-comparable data over time. By not including VAT-type taxes in the producers' price of output, the greater part of the taxes would be eliminated from the production value. Many taxes could be legally deducted and therefore considered VAT-type taxes. If the VAT category was expanded by including all VAT-type taxes, the result could be a producers' price unstable over time, because the legal possibilities of deduction varied for the different types of tax on products.
5. Conclusion: There was no agreement in the region on the gross or net VAT treatment of valuation. Agreement was reached on the use of mixed prices, although the use of producers' prices was also favoured.

B. Integrated analysis of production, income generation and income distribution

1. Statistical units

6. The definitions of statistical units in the revised SNA were reviewed and more clearly expressed: establishments and institutional units. Institutional units were the basic units for the full range of accounts, and reference was made to the difficulty that might arise in linking, by kind of activity and by institutional sectors, the production accounts recommended by the expert groups. It seemed difficult to reconcile the information on production and intermediate consumption because the enterprises' information was consolidated, and the establishments' information included product flows between establishments of the same enterprise. It was also difficult to reconcile value-added data and to classify them by establishment activities and institutional sectors because of the problems that arose in relating the establishments' basic information to their parent company. Emphasis was laid on the need to continue using the SNA approach based on the method of production by establishment, because the establishment was the base of all basic information by economic activity.

7. Some members favoured the institutional classification approach of the revised SNA because that approach showed properly how the institutionally organized economy worked. It was mentioned that reconciliation did not present serious problems because there was no need for reconciliation at the individual unit level but at the institutional sectors level. Reconciliation might be possible at the units level for some groups of enterprises, but only for base years. There were no difficulties for some sectors, such as financial corporations or public enterprises, and that depended on the use made of statistical sources. It was remarked that, by applying the institutional approach, new sources of information, not previously used in preparing national accounts, would be incorporated.

8. Conclusion: It was agreed to incorporate a complete set of accounts by institutional sector in the revised SNA although, for the purpose of calculating the domestic product, preference should continue to be given to the establishment unit. As a consequence, the value of production and intermediate consumption in institutional accounts should be recorded in gross terms. The importance of accounts by institutional sector was mentioned; in the case of practical problems, accounting should be carried out progressively on the basis of accounting data. The items in the rest of the private sector would be set by differential.

2. Production boundaries

9. The production boundaries of the revised SNA have not changed substantially from those in the 1968 SNA; clarifications and specifications were introduced. The expert groups had decided that the production of all goods should be included within the production boundaries, and that the production of services should be included only where they were rendered by one unit to another, different unit. Under that definition, services produced and utilized in the same household should be excluded from the production boundaries.

10. It was doubtful whether the distinction between goods and services was sufficiently developed for that highly important boundary of the system to be defined. Criteria were necessary to justify clearly the classification of activities, such as the supplying of water or the storage of goods for own use, within or outside the production boundaries. The expert groups had recommended that goods storage should be included within the production boundary. Such goods turned out to be of a different nature owing to the cost of storage. Moreover, in the case of water, a distinction would have to be made between the production of water, which constituted a good, and its conveyance by boat, truck and the like, which constituted a service.

11. Some participants remarked that the production boundary did not have to include own-produced inputs. The need to distinguish between the definition of production boundary and its measurement was made clear. The revised SNA proposed that the part of production which was used within the establishment itself should not be measured, and it was made clear that a special problem existed in the case of agriculture where the concept "national farm" was used, for that required the inclusion of production for the sector as a whole in net terms.

12. Conclusion: In principle, agreement was reached on the recommendation, but attention was drawn to the need to define the scope of the illegal activities of the underground and informal economy. It was also stated that the measurement of goods production would not include own-produced inputs and that, in the case of services production, services for own-use which were related to capital formation, such as repairs, would be included. The majority rejected the suggestion that part of the housewife's work should be included. It was made clear that storage in the agricultural sector by the same production units was part of that establishment's production.

3. Market and non-market production

13. Several issues - unresolved by the expert groups - on the distinction between market and non-market producers and products were emphasized. In principle, market producers should cover 50 per cent or more of their costs through sales and non-market producers less than 50 per cent; the price of market products should be established on a market-price basis, whereas non-market products should be valued on the basis of their costs. It was still unclear whether all corporations should or should not be classified as market producers, or whether, in that case, the 50 per cent criterion had to be applied also. Another unresolved issue was whether quasi-corporations not complying with the 50 per cent criterion assigned themselves to the government sector or to the corporate sector. In the latter case, the problem was one of valuating their production in terms of prices actually paid, including subsidies covering deficits, or of valuating their production at cost, while considering the part not covered by sales to be government consumption.

14. Examples of public enterprises not covering 50 per cent of their costs were mentioned: railways, mining enterprises, electricity generating plants and development banks not covering their costs with the interest they received. It was suggested that, for the purpose of identifying market units, the rigid criterion of

covering 50 per cent of their costs should not be emphasized and that priority should be given to the objective or function of the production unit. Other participants suggested that non-market units, such as community and social services, should be identified only in terms of the specific activities in the International Standard Industrial Classification of All Economic Activities (ISIC). It was also stated that the 50 per cent criterion did not clearly distinguish between the various external influences, which could create deficits in production units.

15. Several participants suggested that the use of subsidies should be maintained so as to deal with the differences between costs and prices, because treatment of those differences as government consumption expenditures was not advisable in that it would eliminate almost all GDP subsidies.

16. Conclusion: The participants considered that the 50 per cent criterion suggested for establishing the division between market and non-market production was inadequate and very rigid and that deeper study of the topic was necessary.

4. Alternative income concepts related to production

17. It was explained that the revised SNA included the following three new income concepts: primary income, entrepreneurial income and mixed income. Primary income resulted from allocating the value added to work, capital and government (taxes on production) and eventually in both directions with regard to the rest of the world. The sum of primary income of institutional sectors would then be equivalent to the national income for the national economy. Entrepreneurial income was an intermediate concept between the operating surplus and the primary income. In the case of corporations, it could be obtained by subtracting from the operating surplus the property income paid and by adding the property income received and, in the case of households, by subtracting only the property income paid in the context of management of an unincorporated private enterprise. In both cases, the entrepreneurial income would include profits before taxes. In the household sector, property income was not added to obtain the entrepreneurial income, because it was assumed that all property income received by households was received in their status as households and not as owners of unincorporated enterprises. The term "mixed income" would replace the concept of operating surplus of the production units included in the household sector; the expert groups had made that proposal because that term would better reflect the nature of the operating surplus in that sector, which included not only entrepreneurial income and remuneration of capital but also a component of remuneration of labour. The operating surplus derived from imputation of the production and value added of the services of owner-occupied dwellings would continue to be treated as an operating surplus and not as mixed income.

18. One participant pointed out that the operating surplus concept was sufficiently identified in a separate sector - households - without needing to be renamed. Another participant remarked that the new concept would serve as a point of departure for distinguishing between incomes generated in the formal and informal sectors. Another participant, who had supported the new concept, suggested that another term should be used to identify it.

19. Conclusion: There was agreement on the primary income and entrepreneurial income concepts. So far as the new concept of mixed income was concerned, most of the participants said that that would be neither useful nor meaningful because, by definition, in all unincorporated units the surplus always included the work done by the owner. Although the term "mixed income" was not the most appropriate, some countries maintained that the concept was necessary for analysing, at the aggregate level, the measured part of the informal sector.

C. Integration of stock analysis with the traditional flow analysis of the national accounts

20. It was emphasized in the introduction on the valuation, classification and coverage of assets that the topic of assets, as a whole, was still an unresolved issue. For that reason, the participants were requested to submit their papers on the subject so that the expert groups could discuss them at their next meeting.

1. General principles: coverage, classification, valuation and moment of recording

21. The revised SNA would divide a primary level of detail into financial and non-financial assets. Those assets could be subdivided, at a secondary level, into produced and non-produced assets and, as a further breakdown, into a third level of disaggregation between tangible and intangible assets. The expert groups had discussed an innovation consisting of introducing into the system fixed assets which could be intangible but produced assets, encompassing research and development, capitalized mineral exploration costs, computing programmes and literary artistic work. With regard to changes in assets, a distinction was made between gross capital formation, net purchases of land and other non-produced assets, other changes in the volume of assets and liabilities, nominal capital gains or losses and changes in the structure and classification (of assets and liabilities). The difference between produced and non-produced assets was not necessarily the same in the classification of holdings of assets and in the classification of the changes that had taken place. One example could be land improvements which were included in capital formation as a produced asset, but would not appear in the holdings as a capital formation asset but instead they would be included in the land value. Likewise, capital goods repairs constituted a category of gross fixed capital formation, but did not appear as a separate asset in asset inventories; however, their value was included in the value of buildings or structures where such capital repairs had been made. It was also made clear that the revised SNA would incorporate an annex on the conceptual and methodological aspects of assessing fixed asset inventories. The perpetual inventory system and other related matters would be dealt with in that annex.

22. As for the recommendation to include residential and non-residential buildings in fixed capital formation only at the moment when they had a buyer, reference was made to the case of the treatment given when the Government was the agent that initiated the construction of dwellings before allocating them to tenants; the problems involved in identifying the moment of transfer of the goods to users;

the treatment where prepayments were made which did not necessarily coincide with the progress of the work; the treatment of "time sharing" in apartment purchases. Questions were also raised on the rules for recording the operating surplus of construction works: whether it should be recorded while work was in progress or when it had been completed.

2. Intangible assets

23. If it were decided to include intangible assets as produced assets, the question of how to deal with patents, copyrights and other similar assets would arise. The procedure for dealing with received income and capital consumption by using such assets would also have to be determined. They were currently considered to be non-produced assets generating property income and, if they were taken to be produced assets, they should be included in a wider production boundary and their income should be considered as deriving from non-factor services.

24. In the discussion on the coverage of costs with respect to intangible assets, the question was asked whether the costs of publications for disseminating the results of research and development activities and the costs involved in training employees in the use of new technologies were included. The reply was that, although the expert groups had not discussed those aspects in depth, caution must be exercised in incorporating costs related to human capital in intangible capital. Other questions were raised on the coverage of government expenditures on research and development generating intangible assets, and on the economic activity to which the production of the intangible asset pertained in the case of mineral exploration.

25. In reply to the question on the coverage and treatment of expenditures on the maintenance of computer programmes which would be treated as fixed assets, it was stated that the same distinction was made between current and capital maintenance, whereby current maintenance was intermediate consumption and capital maintenance was fixed capital formation which increased the capital incorporated by the computer programmes. It was explained that the coverage of property income should be revised in relation to the treatment of income generated by intangible assets. In that case, the payments were clearly different from land rent payments.

26. With respect to mineral exploration, it was pointed out that all exploration expenditures were included as fixed capital in oil industry accounting. Where exploration was unsuccessful, those expenditures were reclassified as capital losses.

27. Conclusion: Agreement was reached on the proposal in general and, in particular, on the inclusion of intangible assets in capital formation. So far as those intangible assets were concerned, the study would be continued in order to determine more precisely, the scope and treatment of the income they generated, as well as aspects of their depreciation.

3. Environmental assets and environmental accounting

28. Environmental assets were divided into three main groups: cultivated natural assets, which were included as fixed produced assets, and land and subsoil assets, which were included as non-produced tangible assets. All those natural growth or controlled growth products formed part of the production during their growth, and the production value could be based on the market value base.

29. It was explained that if farm output was based on natural growth and such production was included in the stocks during their growth, crop losses should also be taken into account. In the case of such losses, a distinction should be made between periodic or normal losses and losses caused by disasters. The first-mentioned losses had to be reflected in production adjustments, which were included in stocks, whereas the others were stock losses, which had to be reflected in the account of other changes in the volume of assets. A distortion was introduced in national accounting when natural forests were destroyed to be used for economic purposes and parts of those forests were later replaced. The destruction of natural forests was not taken into account, the conversion of forests for economic purposes (farmland) was reflected in gross fixed capital formation when there were economic land "improvements", and the replacing of forests was also included in gross capital formation.

30. It was explained that, in principle, all natural assets affected by economic activity - the exhaustion of mineral deposits or water and air deterioration - were included in the environmental accounting system. Nevertheless, there was no proposal to make balances for non-economic assets, such as air, water and natural forests, for which there was no market valuation. Only balances in monetary terms were included for the economic assets which were similar to the SNA balances. The costs of economic activities affecting non-economic assets were also included.

31. Conclusion: Agreement was reached on the treatment of natural growth, but no specific position was taken on the valuation of standing crops. The participants agreed that environmental accounting should be developed as a satellite system of the revised SNA, although they had some misgivings about the data required for implementing such a system over the short term.

D. Financial instruments, financial sector and financial accounts

1. Imputations by financial intermediation services: banking and insurance services

32. The expert groups had suggested several changes in the production and distribution of financial intermediaries, namely, banks and insurance companies. In the case of banking, it was proposed that consideration should be given to bank production as "real" production, which was only an approximation made by adding current charges for banking services; banking services were imputed charges based on the difference between property income paid and received. In other words, the imputations themselves had not changed but their character had.

33. On the subject of bank imputation, questions were raised concerning the treatment for exchange-rate fluctuations affecting the interest received and paid by banks and for taking into account offsettings for capital losses which were reflected in high interest rates. An exact definition of the interest rate of reference was requested and alternative suggestions were made for distributing bank imputation by sectors based on the loans and deposits which those sectors had with the banks.

34. Conclusion: In principle, agreement was reached on the valuation of services related to the imputed charges of financial intermediation services and to the insurance service charges. Note was taken of the progress made in the study for defining more precisely the criteria on the allocation of banking services by different uses.

2. Financial intermediaries and financial auxiliary units

35. It was recommended that the financial sector in the revised SNA should be expanded to include auxiliary enterprises which facilitated financial intermediation. The role and corresponding treatment of central banks were discussed because, in many countries, they engaged in dealings which went beyond regular central bank practice and they had therefore to be differentiated from other banks. When reserves of the central bank were deposited abroad, there were difficulties in the way of assessing the bank's production because of exchange-rate fluctuations and also because many external debt payments were channelled through the central bank. Finally, mention was made of the problem of assigning the production of central banks to specific sectors because they actually served the whole country.

36. Conclusion: Clarification of the financial intermediaries concept was requested, as was a more precise definition of the treatment of central banks, bearing in mind the special role which they fulfilled in the region, the placement of their reserves abroad and the special government investment funds.

3. Financial instruments

37. There were two new aspects of assets and liabilities in the revised SNA. First of all, it was proposed that the revised SNA should include a definition of a financial asset which required a reimbursement by a creditor or debtor under specific or contractually predetermined circumstances. Financial assets included only those in which the creditor had an unconditional claim on the debtor. Contingent positions were not included. Secondly, the system would include a detailed classification of the financial instruments reflecting the new financial instruments developed since the 1968 SNA.

38. Questions were asked about the compatibility of the moment of recording zero coupon bonds between SNA (on an accrual basis) and the balance of payments (on a cash basis). One participant suggested that two subcategories should be differentiated in the category of shares and other equities at the second level of

financial asset classification. It was also suggested that the classification of financial instruments should be expanded so that specific financial instruments, such as bank acceptances, repurchase agreements and zero coupon bonds, could be clearly identified.

39. With regard to the question of whether the revised SNA would include the foreign investment concept, it was pointed out that there were no changes in the revised SNA as compared with the 1968 version. In both systems, a fictitious non-resident unit which had a financial link with the country of origin was created. Therefore foreign investment in terms of non-financial capital was not identified in a separate way.

40. Conclusion: Agreement was reached on the proposal to classify financial instruments, and it was made clear that the treatment of interest on zero coupon bonds was consistent with the new general criterion to record interest on an accrual basis.

E. Transfer of resources between countries

1. Residence

41. The expert groups had recommended that residence should be assigned on the basis of its centre of interest. The principle was developed in operational terms for individuals, enterprises and international bodies. The main criteria for determining the residence of individuals and enterprises were discussed; it was considered that the one-year rule should be applied flexibly, especially in the case of construction activities. International and regional bodies would be treated as in the present SNA.

42. The expert groups had discussed the treatment of the residence of banks and non-financial enterprises established in countries with extraterritorial status. Special mention was made of "off-shore" banks, oil-company branches and non-financial enterprises whose operations and finances were outside the control of the Government of the country in which they were situated. According to some participants, the recommendation to incorporate them as residents of such countries created insuperable problems with regard to obtaining information and, in addition, it would increase the GDP of those countries to an unrealistic level.

43. Conclusion: Agreement was reached on the treatment of the residence concept and on transactions related to the external sector; emphasis was laid on the special status of "off-shore" banks and free zones and on the treatment proposed in the case of reinvestment of profits from direct investments.

2. Reinvested earnings of direct investments, direct investment enterprises, external control

44. In order to co-ordinate the system with the present balance-of-payment treatment, the expert groups had proposed that reinvested earnings should be introduced in the revised SNA. Such earnings would be introduced as part of paid/received property income in the external sector and, at the same time, would be reflected as an increase in external assets/liabilities.

45. The incorporation, within the appropriation of the primary income account, of reinvested earnings on foreign direct investment, as well as of private unincorporated units included in the household sector, which could have direct investment shares in non-resident enterprises, was questioned: it was stated that the inclusion of imputations for reinvested earnings from direct investments would change the country's savings concept in an unacceptable form. It was also remarked that savings resulting from such imputation was the correct savings concept.

3. Write-off of bad debts

46. An explanation was given of changes in the topic in relation to the 1968 SNA, and on the treatment of the voluntary write-off of debt, provisions for bad debts, write-downs of financial assets and payment arrears. The problem of whether the external debt was valued at the moment of write-off at nominal value or at a lower value was raised. Reference was also made to the problem of valuation of bonds issued by the Government to non-residents and residents at values below the nominal value of the external debt as financing such debt.

47. Conclusion: The participants requested that account should be taken of the recommendations on the treatment and valuation of capitalization of the external debt.

Multiple exchange rates and other aspects of the valuation of external transactions

48. It was stated that the expert groups had discussed the treatment of the valuation of external transactions in detail and that their conclusions and questions were contained in the discussion paper. An inflation factor was implicitly included in the conversion to national currency of external transactions. In principle, that component should be excluded from the valuation of external transactions. There were several questions and comments concerning aspects of the multiple exchange-rate treatment, which have not been responded to so far. Reference was made to the problem of valuating external transactions which were made exclusively in foreign-currency prices. The problem of how to treat income from private banks obtained through exchange differentials resulting from official multiple exchange rates was raised. Questions were also asked about ways of reconciling the income, based on official multiple exchange rates, from transactions carried out in the external sector, with the income received by the central bank or Government.

49. With regard to the recommendation to make global adjustments in the external sector accounts for official exchange-rate differentials, questions were raised about how such differentials would be treated when measurements at constant prices were used and in the calculation of the terms of trade. In principle, agreement was reached on the treatment of exchange-rate differentials as taxes (on products, income or capital), even though such income was received by the central bank. It was noted that those exchange-rate differentials received by the central bank on the basis of an official multiple exchange-rate system had replaced the taxes/subsidies on products which had been taxed in previous periods.

50. There was no agreement on ways of dealing with the parallel market vis-à-vis the official exchange market. As the parallel market had to be completely separate from the official market, it must be treated in a different way without making global adjustments in the external accounts. Other participants viewed the parallel market as an extension of the official exchange market and were of the opinion that interrelated treatment of transactions in the two types of market was therefore necessary. Enterprises and individuals in a given country could, within the limits of the law, choose to purchase or sell their currencies on the official market or in private banks. Examples of some not very obvious aspects of multiple exchange rates were given. In one country, for example, the external debt of an enterprise had been index-linked basically at a rate lower than the rate of inflation.

51. Conclusion: The topic of multiple exchange rates for the standard valuation of external transactions as an adjustment to the overall level of the nation's consolidated accounts was considered important, although it was considered convenient to complete the guidelines for its practical implementation, including the treatment of the parallel market.

F. Analysis of inflation

1. Constant price accounting

52. The use of chain indices was discussed in order to analyse short-term changes, the treatment of different prices for identical products according to the circumstances and situations in which the goods were sold, and the distinctive features of price and quantity measurements for non-market goods and services, particularly those of the Government. The question arose about whether the Laspeyres-type of fixed-base volume indices should be changed or replaced by chain indices, since the weights of the latter would change each year. The expert groups had suggested that the chain indices should be presented as supplements to fixed-base volume indicators.

53. The participants discussed the distinction between identical goods sold at different prices, which should be considered as different goods sold at different prices so as to reflect different quality, and goods which should be treated as identical goods in the strict sense and for which weighted prices should be used. Examples mentioned included electric power, telephone rates and petroleum products, which are usually sold in separate markets. The view was expressed that if these

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goods were sold in separate markets and hence were not transferrable from one market to another, they should be treated as different goods. That applied specifically to services, the importance of which had increased substantially in recent years.

54. With regard to the use of appropriate indices for extrapolating non-market services, such as health, it was pointed out that the indicators for the use of health services did not give a true picture of the state of health of the population. It was emphasized that SNA did not measure aspects of well-being, such as health, but rather economic indicators like output and consumption.

55. Conclusion: There was agreement with regard to the treatment of constant price estimates, as outlined in the discussion paper. With regard to the treatment of identical goods for different categories of consumers, participants favoured an approach which considered them as different goods.

2. Trading gains and losses from changes in the terms of trade,
and real national disposal income

56. The expert groups had proposed that gains and losses resulting from changes in the terms of trade should be made an integral part of the revised SNA. Such gains and losses would be added to GDP at constant prices in order to derive a new income aggregate called real gross domestic income (real GDI). The system would also include the concept of real national income and real national disposable income, which is derived from real GDI by including in the latter net factor income and current transfers from abroad at constant prices with the implicit deflator for gross final domestic expenditure. It was common practice in the region to use the price index for imports to deflate the balance of trade of non-factor goods and services.

57. Conclusion: With respect to the item on the terms of trade, the seminar took note of the recommendation on the importance of estimates of real national income, in spite of the fact that it was not possible to propose single indices for deflating the different components or standard indices that could be applied to all countries.

3. Revaluation of changes in stocks, including work-in-progress

58. The expert groups had discussed the estimation of changes in stocks and the valuation of work-in-progress. The conclusions reached were set out in the discussion paper. In view of the difficulty of interpreting changes in stocks when inflation was high, it was suggested that such changes should be divided into two components, one reflecting changes in the volume of stocks and the other reflecting the difference in price between the opening and closing values. In that connection, a specific adjustment was suggested, consisting in the valuing of changes in stocks at average prices multiplied by the difference between the use and supply prices.

59. It was stated that, in calculating capital gains on stocks, account should be taken of storage costs, which were also affected by rising prices in the period during which the goods remained in stock and that trade margins might well be negative in times of inflation since dealers might profit from gains on the stocks they held. It was stated that construction projects should be considered as an integrated good which must be valued on the basis of the costs incurred throughout the period during which the work was done. Only when the work was completed could the difference between the market value of the work and the accrued costs arising during the construction period be calculated; it was suggested that that difference should be treated as a revaluation.

60. Conclusion: There was agreement with the general treatment proposed, whereby income resulting from capital gains or losses would be separated from the value of changes in stocks. For practical purposes, a proposal was made to adjust the suggested calculation in order to approximate more closely the ideal estimate that was sought. In addition, a request was made for clarification of the treatment of storage costs in determining producers' prices.

4. Inflation accounting

(a) Capital gains: nominal, neutral and real

61. The sequence of accounts for institutional units included a revaluation account reflecting nominal capital gains (or losses) and, in addition, showing the real and neutral components separately. Neutral gains were defined in terms of changes in the general price level and real gains as the difference between nominal (total current change) and neutral gains. It was noted that the recommendation was to use the implicit deflator of gross domestic expenditure as the indicator of the general price level.

62. It was explained in the general discussion that, although there had been no revaluation of some financial assets in inflationary situations, such assets could yield real capital gains or losses after deduction for inflation in the general price level. It was pointed out that capital gains were recorded before tax payment. Tax payments were generally treated as current transfers.

63. It was suggested that the revaluation account should be calculated residually, so that capital gains would approximate gains obtained during the year. It was pointed out, in reply, that in periods of high inflation, such an approximation could be very different from the calculation of the proposed revaluation, since it did not include changes in the price of assets appearing or disappearing during the period.

64. Conclusion: With regard to the proposal regarding the treatment of nominal, neutral and real gains, attention was drawn to the inconsistency in reflecting capital gains or losses between opening and closing balance sheets and not doing likewise for gains realized during the accounting period.

(b) Real versus nominal interest and index-linked securities

65. The expert groups had considered and rejected, for several reasons, the inclusion of real, rather than nominal, interest in the primary distribution of income account. Real interest included only income that was not compensation for losses of capital.

66. In the discussion of real national disposable income, participants stated that real net factor income from abroad should include real rather than nominal interest on the external debt, reflecting adjustments for the revaluation of the external debt in local currency. One participant stated that real interest should be deflated. The participants who supported the inclusion of real interest in the primary distribution of income account indicated that in periods of high inflation the distribution of disposable income was distorted: the disposable income of debtors was low, while that of creditors was high. The result was a concept of saving of enterprises that was not very meaningful and that distorted the relationship between the consumption of households and households' disposable income.

67. It was stated that in financial analysis monetary adjustments were treated as one of the elements that explained changes in the value of assets and liabilities in the balance sheet; that is to say, monetary adjustment was treated as an item in the revaluation account. In support of that position, it was emphasized that the payment of interest in periods of high inflation in fact meant that the debtor paid part of his debt again. With respect to the treatment of indexed-linked securities, some participants indicated that there were discrepancies between the expert groups' recommendations concerning indexed-linked securities and other indexed securities which adjusted the redemption price. The expert groups had suggested that all interest paid should be treated as nominal interest, including the indexed portion, whereas in the case of the latter it recommended that only interest should be treated as nominal interest and that the additional amount paid upon redemption should be treated as a capital revaluation.

68. Conclusion: The majority of participants emphasized the necessity of recording real interest in the primary distribution income account since that was useful for economic analysis. Nominal interest should be shown together with the items of adjustments which are made owing to gains or losses resulting from inflation. The remaining participants stressed that the issue deserved more detailed study, given its importance, complexity and similarity with other transactions. Consequently, the countries which supported the inclusion of real interest favoured equal treatment in this case.

G. The role of the household sector in the economic process

1. Households, non-profit institutions, formal versus informal activities

69. The importance of households as producers in developing countries was emphasized. Most participants agreed that the distinction between formal and informal activities was important for analysis in the region. However, there was concern over the definition of informal activities, which might result in a very large sector that was not very meaningful for analysis. Mention was made of informal activities that were extensions of the production activities of large enterprises clearly belonging to the formal sector, such as the activities of pedlars who sold the goods of such companies but were not their employees. One participant suggested that, as a starting point, the notion of mixed household income should be taken as an approximation of the contribution made by the informal sector to GDP so as to avoid the erroneous conclusion that the role played by labour in production had declined in comparison with that of capital; in fact, as a consequence of the increase of the mixed income of the informal sector, there was a decrease of participation of labour. Other participants did not, however, agree, because that position implicitly assumed that the distinction between formal and informal was the same as the distinction between corporations and quasi-corporations on the one hand and unincorporated enterprises on the other.

70. Participants commented on the criteria used to distinguish between non-profit institutions included in the household sector and those which were part of the Government. The view was expressed that the criteria of financing and sector served should be given equal weight in deciding how to classify such institutions. It was stated that the informal sector could be dealt with in satellite accounts which would be as important for the region as the satellite accounts for the environment.

71. It was explained that individuals in prisons, convents, hospitals and the like were included in the breakdown of households by socio-economic group in the category of recipients of property income and other transfers. Clarification was requested concerning the treatment of volunteer work for the maintenance of public streets: whether the value of the labour should be imputed and the output of such activity treated as a transfer in kind between households and the Government. It was stated in reply that the expert groups had not considered how that case should be treated. The only proposal made was that the valuation of capital goods created as a result of community activities should reflect the imputed value of volunteer labour.

72. Conclusion: The participants noted the emphasis which the revised SNA would give to the household sector, emphasizing, among other things, income distribution and endeavouring to reach a consensus on the distinction between formal and informal activities. In that connection, participants agreed with the inclusion of private non-profit institutions (PNPIS) with households in a single sector, or to the proposed classification for the household subsector. With respect to the distinction between formal and informal activities, participants recognized the difficulties involved in drawing an appropriate boundary between them and in

applying the distinction systematically in practice to all household subsectors. Notwithstanding the foregoing, the participants stressed the importance of continuing the studies needed for effective application of the distinction.

2. Consumption expenditure, actual consumption and disposable income

73. The revised SNA proposed the inclusion of two concepts for household and government consumption. One of them, final consumption expenditure, referred to outlays made by households and the Government for items of consumption. The second concept, actual final consumption, included additionally, for households, those expenditures made by the Government which were "individualizable", such as education and health, whereas other final consumption expenditures of the Government which were of a collective nature, such as defence and law enforcement, would remain under the actual final consumption of the government sector. The distinction between collective consumption and individualizable consumption paid for by the Government would be made on the basis of the categories of the Classification of the Functions of Government. The two concepts of consumption, for the two sectors, corresponded to two alternative concepts of income - disposable income and adjusted disposable income; the difference between the two would be government transfers in kind to households, which constituted the difference between the final actual consumption and the final consumption expenditure of households. The total final consumption expenditure of households and the Government should be equal to the total actual consumption expenditure of the two combined; disposable income less consumption expenditure and adjusted disposable income less actual consumption of households and the Government yielded the same savings for each sector.

74. With regard to the supply and demand table, it was explained that government consumption expenditure had two components: (1) government services produced by the Government itself and not sold; and (2) goods purchased by the Government and distributed to the population without processing. The treatment proposed by the Expert Groups had several implications. First, the aggregate final consumption expenditures of the Government were higher than the output of government services for its own use, and the differential was the goods distributed by the Government without any processing. Such transfers of goods to the population were included under transfers in kind, which constituted the difference between final consumption expenditure and actual final consumption by households. Another implication was that the column for individual government expenditures might include different categories of products (the Central Product Classification) and the column for final consumption expenditures of the government might include different categories of governmental services (general administration and defence, education, health and so on).

75. It was explained that subdividing the household sector into households and PNPIs was necessary in order to identify the components of collective and individual consumption included in the consumption of PNPIs. Collective consumption must be subtracted from the final consumption expenditure of households in order to be able to reconstruct the actual final consumption of households. Some participants asked whether any collective final consumption expenditures were included in the final consumption of PNPIs serving only households.

76. With regard to the treatment of educational and health services usually provided by enterprises, not just to the families of their employees but to other members of the community as well, mention was made of the fact that the expert groups had not identified transfers in kind between enterprises and households, but only between Governments and households. The negative difference between government output and final consumption in that sector was explained by the separate treatment of transfers in kind from the Government to households; for example, food and clothing purchased by the Government for transfer, without any processing, to various sectors of the population.

77. With regard to expenditure by enterprises ultimately benefiting households, there were two cases of purchases by enterprises which were not clearly components of intermediate consumption by those enterprises: used clothing and food purchased by the enterprise for sale to the public and its employees, and purchases of uniforms used by the enterprise to promote the sale of its products under contractual arrangements with individuals not in its employ. It was stated that, in the former case, such purchases were transactions in which the enterprise acted as an intermediary selling imported products and taking a trade margin; in the latter case, the purchase of uniforms was intermediate consumption by the enterprise for advertising purposes. Mention was also made of the case of expenditures which some mining companies were required by law to make for the provision of hospital services and schools for the entire community. Although the expert groups had not considered that kind of expenditure, it could, owing to its legal character, be treated as taxes and not as transfers to households.

78. It was stated that if cultural or recreational services of the Government were provided by non-profit institutions, it would be possible to identify two situations: in the first, the Government provided majority financing for the non-profit institution, which meant that the institution was part of the government sector, and the institution's expenditures were internal expenditures of the government sector; in the second, the institution did not receive majority financing from the Government and hence was a private non-profit institution separate from the Government, and its expenditures were treated as government transfers to the private non-profit institution.

79. Conclusion: The seminar agreed to the inclusion in the system of the new concepts of actual final consumption and adjusted disposable income, in view of their importance for analysis, and it agreed not to introduce a new category of final consumption expenditures of enterprises.

H. Role of the public sector

1. Imputation of rent on government buildings, consumption of fixed capital on roads, dams and other public infrastructure

80. The expert groups had sought to introduce in the revised SNA imputations for the rental value of buildings used and owned by the Government and to introduce consumption of fixed capital for all public fixed assets. In general, there was no support for the inclusion of imputed rent for government buildings. One reason

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mentioned was that an imputation of that kind would result in a disproportionate increase in the contribution of the government sector to the GDP. Another was the problem of obtaining information. While not supporting the proposal, one participant was of the view that such treatment was justified when several property transfers between the private and government sectors took place.

81. With regard to the deterioration of roads as a result of inadequate current expenditures on maintenance, it was stated that, while maintenance expenditure was exclusively current, it affected the pace of obsolescence and there was therefore justification for the introduction of a calculation for the consumption of fixed capital.

82. Conclusion: The participants did not support the inclusion of an imputation for the net operating surplus in respect of buildings used by the Government for its own purposes, primarily on practical grounds. There was, however, agreement to calculate the consumption of fixed capital on roads and other public infrastructure.

2. Public enterprises

83. The explanation concerning public enterprises consisted in a clarification of the general principles proposed for distinguishing in the public sector between units that would be considered corporations (including quasi-corporations) and unincorporated government units. Comments were made on the criterion for distinguishing public corporations from private enterprises, which was majority participation of the Government in capital, or government control over management of the unit.

84. It was suggested that the criterion of 50 per cent ownership should not be rigidly applied. Rather, account should be taken in many cases of the criterion of control through the appointment of directors or the number of votes controlled. Other participants expressed doubts about the identification of public corporations and quasi-corporations solely on the basis of the existence of separate accounts. Comments were also made on enterprises whose goods were sold primarily to the Government at cost prices bearing no relationship to market prices. It was indicated in reply that the distinction between market producers and non-market producers had to be taken into account as an additional criterion for distinguishing between the Government and corporations. However, it was indicated that the various criteria were still being studied by the expert groups.

85. Conclusion: No objection was raised to the criterion of corporations and unincorporated enterprises or to the distinction between public and private enterprises.

3. Taxes and other public sector transfers

86. The expert groups had proposed that the terms "indirect taxes" and "direct taxes" used in the 1968 SNA should be replaced by the terms "taxes on production and imports" and "current taxes on income and wealth etc.", respectively. The

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annex to the discussion paper contained the proposal for the classification of such transactions.

87. In reply to questions, it was indicated that imputed taxes and implicit subsidies were included in the same categories as the actual taxes and subsidies. The new terminology on taxes on production, income and capital had been introduced in order to reflect more accurately the collection basis and the classification of the taxes in SNA.

88. Conclusion: The participants raised no objections to the aspects of classification and coverage of taxes or to the changes in the relevant terminology in the revised SNA.

II. ACCOUNTING FRAMEWORK

89. The proposed accounting framework was explained in detail and commented upon during the first three days of the seminar. During the discussion, one participant stated that the supply and demand table should be constructed on the basis of producers' and purchasers' prices. On the basis of those alternative valuations it would be possible to construct a matrix of trade and transport margins.

90. In discussing the links between the classification of the production accounts according to activity and institutional sector, it was suggested that illustrative data should be included in the tables in order to provide a better understanding of the relationship between the two kinds of classification.

91. The relationship between the balance of payments and the external account was discussed in terms of the transactions covered. Several participants stated that the balance of payments of their countries included only transactions in foreign currency and were expressed only in those currencies. It was indicated in reply that there was no difference in principle between the balance of payments and the external sector of SNA in that regard; the two types of analysis had to include all transactions with the rest of the world, independently of the currency used for the transaction.

92. Various suggestions and observations were made concerning the integrated economic accounts for the nation: (1) separate columns should be included for taxes on products not included in value added; that would avoid the confusion which existed as a result of the inclusion of those taxes only in the national economy column; (2) the category of net taxes on products should be separated into taxes and subsidies on products; (3) a clearer method should be devised for recording consumption of fixed capital; (4) additional columns should be included in the balance of payments; that would make it possible to present the external sector from the point of view of both the national economy and of the rest of the world.

93. In connection with the presentation of the sequence of accounts, there was a discussion of the allocation and treatment of insurance technical reserves, financial leasing, external transfers by non-residents and imputed rent on owner-occupied dwellings.

94. With regard to the treatment of statistical discrepancies, it was explained that the system defined the concepts and the interrelationship between them and that the practical problem of statistical discrepancies would be dealt with in handbooks to accompany the revised system.

95. Clarification was requested concerning the treatment and classification of the destruction of assets by insurable risks, which was not identified separately in the classification of capital transactions or in the categories of the "other changes in the volume of assets" account.

96. Although the system included a revaluation account, that account was placed at the end of the real accounts. That constituted a problem for high-inflation economies of the region. There was a need to develop combined analysis of the real process and the inflationary aspect.

97. Another topic discussed was that of the supply and use table. It was pointed out that that table could be called an input-output table. That view did not gain acceptance, since an input-output table had very different features in terms of the categories of classification and valuation of flows of goods.

98. One participant advocated including a matrix in the system along the lines of table 2.1 of the 1968 SNA. Another suggested that the revised SNA should provide a more coherent elaboration of codes for transactions, transactors and accounts than that given in the 1968 SNA. Support was expressed for the inclusion of satellite accounts and other applications of the system since they provided a clearer picture of the relationship between the system and other kinds of analyses.

99. Conclusion: A brief review was conducted of the issues considered in detail during the first days of the seminar, relating to classifications, accounts and tables, the adaptation of specific analytical uses and links with other systems of statistics. Participants considered that the presentation of the accounting structure was useful for specialists in national accounts in explaining and understanding the full integrated system, but they felt it advisable to codify transactions in order to facilitate exchanges involving computer programmes and to present a simplified handbook and accounting structure for users.

Accounting rules

100. Accounting rules would be made explicit in a separate chapter of the revised SNA, which would include information on kinds of imputations, consolidation rules and the basis for recording transactions.

101. Comments were made on the need to ensure compatibility between SNA and the IMF system of government finance statistics as regards the consolidation rules of the government sector.

102. Conclusion: The participants took note of the general principles to be included in the chapter on accounting rules, which was in the final drafting stages.

III. TERMINOLOGY

103. A proposal of the Economic Commission for Latin America and the Caribbean (ECLAC) on national accounts terminology in Spanish was circulated; the comments of participants on the proposal were sought with the aim of working out standardized terminology for national accounts to be used by the Spanish-speaking countries of the region and for inclusion in the Spanish version of the revised SNA.

IV. REVISION OF SNA FROM THE LATIN AMERICAN AND CARIBBEAN POINT OF VIEW

104. Conclusion: With regard to the proposed revision of SNA, there was a general consensus to stress the progress made in the conceptual framework, highlighting, among other outstanding general aspects, the integration of flows in the balances, the presentation of integrated accounts by institutional sectors, the introduction of accounting adjustments for the analysis of inflation and the harmonization achieved with other statistical systems.

V. IMPLEMENTATION OF THE REVISED SNA

105. It was pointed out that in countries experiencing high inflation, there was a need to compile national accounts more frequently than on a quarterly basis. Regional accounts were also very important for the countries of the region. The Statistical Office of the United Nations Secretariat and other international bodies must assist the countries of the region in compiling quarterly and regional accounts.

106. Reference was made to the necessity of bringing pressure to bear on national statistical authorities to produce the kind of statistics needed for the development of the new system, as had been done by one country which had introduced changes in its economic census in 1985 so as to include information on institutional types of units. It was recommended that a handbook be prepared establishing priorities for statistical information systems.

107. Several participants referred to the substantial theoretical and conceptual progress which the new system of national accounts represented, although they believed the new system would be difficult to apply. It was argued that, for analytical reasons, there was a great need for users and those responsible for compiling national accounts in the countries of the region to alter their views concerning the role of national accounts and to make an effort to replace the traditional approach, which emphasized production accounts, with a much broader implementation of the system. Several participants said that they had no objections to the integrated approach of the new system, but emphasized the need for technical, financial and training assistance for the practical implementation of the fourth revision of SNA.

108. With regard to the text of the revised SNA in other languages, it was indicated that the chapters and annexes that would be submitted to the United

Nations Statistical Commission in February 1991 were in the process of being translated into Arabic, Chinese, French, Russian and Spanish. The final version in Spanish would be translated by Spain and edited by ECLAC. Financial assistance was being sought for the translation of the new system into Portuguese, since speakers of that language numbered approximately 250 million.

109. Conclusion: In the concluding discussion of the seminar, serious concern was expressed about the real possibility of applying the new system in the short and medium term. The most important factors, which had also affected the implementation of the existing version, included (a) the difficulties which were still being encountered in the area of basic statistics; (b) the constant turnover of technical personnel, which required continuing efforts in the area of staff training and adversely affected specialization by staff; (c) the growing need to concentrate efforts on short-term analysis - instead of maintaining, improving or expanding the system itself - and, at the same time, the difficulty in implementing instruments for such analysis, a difficulty aggravated by the inflationary process taking place in most countries of the region. Lastly, it was emphasized that the region would have increased needs for technical co-operation and training in the area of national accounts and basic statistics. The international organizations attending the seminar were called upon to give consideration to those needs in their programmes of activity and budgets.

Annex

LIST OF PARTICIPANTS

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NATIONAL ACCOUNTS AND BALANCES: SYSTEM OF NATIONAL ACCOUNTS (SNA)

Report of the Expert Meeting on the revision of the System
of National Accounts in the Arab world

SUMMARY

The present preliminary report contains a summary of the main recommendations and conclusions emanating from the expert meeting on the revision of the System of National Accounts held in Tunis, from 11 to 16 June 1990, in preparation for the Second Arab Conference on National Accounts. The expert meeting was organized by the Arab Fund for Economic and Social Development in co-operation with the Economic and Social Commission for Western Asia, the Arab League, the Arab Monetary Fund and the Arab Institute for Statistical Training and Research.

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INTRODUCTION

1. An Expert Meeting on National Accounts in the Arab States was held at Tunis from 11 to 16 June 1990. Twenty-eight experts participated in the meeting (see annex I) which took place in the framework of preparations for the Second Arab Conference on National Accounts, to be held at Kuwait, from 14 to 16 October 1990, under the auspices of the Secretariat of the League of Arab States, the Arab Fund for Economic and Social Development, the Arab Monetary Fund, the Arab Centre for Training and Research in Statistics and the Economic and Social Commission for Western Asia.
2. In support of the efforts being made by the United Nations and the other international organizations represented in the Inter-Secretariat Working Group on National Accounts to revise the 1968 United Nations System of National Accounts (SNA), the experts devoted nine meetings to a discussion of the working paper on the main concepts and classifications of the revised SNA circulated by the Statistical Office of the United Nations and a number of papers prepared by the experts.
3. The report of the meeting comprises three sections. The first section deals with the objectives and rationale of the proposed revisions to the SNA; the second section deals with the characteristics of the region; and the third section presents the comments of the experts on the revised SNA as proposed.

I. OBJECTIVES OF THE REVISION

4. The expanded SNA has three major goals: to clarify and simplify the concepts and classifications of the system, to achieve a harmonization with other statistical systems and to update the system and bring it into line with recent developments in economic relations. The SNA is being revised in line with the particular problems encountered by national accounts systems due to recent economic changes. These changes concern development and the building of a production base and the correction of its shortcomings with respect to developments in external relations in a changing international environment which is witnessing a modification in the international division of labour, and they deal with changes in wealth, the distribution of income and welfare.
5. The goals of the SNA revision are the improvement and expansion of the national accounts themselves in order to provide a suitable data framework for decision-making and movement towards the utilization of partial economic models in order to increase the effectiveness of national accounts not only as an information tool but also as a planning tool.
6. Since the need has emerged for Arab statistical organizations to develop their national accounting systems, and in order that such development may be in keeping with the international framework and thus facilitate international comparisons, it was deemed advisable to hold a meeting of experts to discuss the revised SNA in the context of the characteristics of the Arab region and in the light of its previous experience in using the system and its future aspirations in this regard.

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II. CHARACTERISTICS OF THE ARAB ECONOMIES

7. The basic issue for the developing countries is resource development; therefore, greater attention must be focused on resource endowment statistics and income statistics dealing with the utilization and allocation of available resources.

8. With regard to physical resources, it may be noted that productive capital assets are normally subject to high levels of idleness. While it is customary in some countries to collect statistics or conduct surveys relating to the measurement of idle capacity, this has an impact on the principles for the valuation of available capacities and rates of depreciation and obsolescence. A part of the commodity stock belongs in reality to the category of "stagnant stock". This raises a problem in connection with valuation principles, particularly since the principles of commercial accounting may be suitable for estimating actual value, thereby causing a delay in the estimation of value added and the operating surplus. On the other hand, the most important resource for the Arab countries is the human factor. Putting aside the issues relating to the problems of measuring human resources, the need to increase the efficient utilization of the human element, which is essential to the development process, raises questions concerning the lack of interest in previous attempts to establish a uniform system of human statistics and their breakdown in accordance with sectoral and activity classifications that accord with those in use in economic accounts. With the increasing tendency towards regional integration and with the new groupings that have begun to emerge in the Arab region, attention is required to certain details that will help in gauging the effects of integrating measures. These would include: (a) a differentiation between the movement of individuals arising out of the opening of borders within the region and movement across the borders of the region; (b) a differentiation in the movement of capital transfers, particularly if they are treated in a special fashion that differs from the treatment of foreign capital and (c) the provision of a continuous picture of development in relation to production, particularly if the groupings were to concern themselves with the co-ordination of production and the establishment of stronger production links. This would require focusing on two aspects: the extent to which internal integration has been achieved, for the measurement of which input-output tables can be used; and the extent to which integration at the regional level has been achieved, which may involve the construction of regional input-output tables with all that that implies for definitions of establishments and goods and for valuation principles.

9. Particular surveys are often carried out in order to promote the measurement of productivity. However, the system must be capable of providing the necessary data base for the ongoing monitoring of basic production indicators, whether for each factor of production or for general productivity and the various activities.

10. There is a continuing trend in the Arab region towards privatization. Its achievement requires: (a) a separation between the activities of the public and private sectors and the provision of greater detail so as to assist in measuring and comparing the efficiency of performance over time; (b) the establishment of principles for the evaluation of basic services (education, health, etc.) in which

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the private sector can participate, and the effect of the use of these principles in the two sectors on gauging the volume of activity and the degree to which it changes with the relative weight of the two sectors; and (c) an examination of the effect of transferring to the private sector in order to stimulate certain service-related activities normally undertaken by government agencies, such as cleaning services for government buildings or the distribution of water and electricity, including the hidden subsidies associated with those types of transfers.

11. With a view to encouraging Arab investment or for facilitating regional trade, exemptions are customarily given to financial commodity flows. It is important that an estimate be made of the volume of such exemptions and of their impact on income distribution in individual countries and at the regional level so that the distribution of benefits and burdens, an issue vital for integration, can be monitored. With the growing role of the private sector and an increasing reliance on market forces, planning methods are changing, and the role of economic and financial policies and of their various instrumentalities is becoming greater. This implies: (a) the expansion of the data base necessary for planning, whether at the national level or at the level of units of production; (b) the increased use of the system of national accounts to monitor the development process; and (c) the measurement of the impact of various policies, and the development and application of principles of accounting in various production units in order to facilitate the linkage between accounting at the establishment level and national accounting.

12. There are certain issues which carry great weight in the Arab region and require special treatment in national accounts. They include: (a) the refugee issue; (b) the use of the Hijra calendar; (c) the question of allowing Arabs to hold capital assets, particularly land, and of according the right of residence to anyone who deposits a certain minimum amount of funds even if his major activity continues to be outside the country; (d) Arab investments overseas; (e) the special character of the oil sector and the dominance of a single economic activity; and (f) the informal sector and small industries, particularly since technological advance now permits the purchase of services, such as software, from individuals, or the pursuit of certain advanced production processes in household units. The latter type of activity is expected to increase, especially with the increasing number of stages of production and the endeavour of large-scale units to specialize in design and to assign the production of parts to units which work in accordance with the specifications laid down by them. This means that the informal sector will become a tightly organized appendage to the large corporations sector and will no longer be attached to the family sector in the traditional manner.

III. COMMENTS ON THE REVISED SNA

A. Integrated analyses of production, income generation and income distribution

1. Sectorization and statistical units

13. The revised SNA will incorporate a full set of accounts for each institutional sector, including production, income, capital, financial and balance-sheet accounts. At the same time, the production process will continue to be analysed in terms of finer units, namely establishments. On that basis, it has been decided that the basic statistical units for the whole range of accounts will be "institutional units", having regard for the definitions of the institutional unit and the establishment that have been adopted.

2. Alternative income concepts

14. The meeting endorsed the proposed alternative income concepts linked to production, and it was of the view that they should be considered as ancillary tools in economic analysis.

3. Production boundary

15. The meeting examined and expressed agreement with the proposed revisions regarding the production boundary.

4. Quasi-corporations versus unincorporated enterprises

16. The meeting examined and endorsed the definitions of corporations, quasi-corporations and unincorporated enterprises.

5. Market and non-market production

17. With regard to the distinction made between market and non-market production, the issue was raised of how to treat the costs of products sold at prices much below production cost for reasons of government subsidy policies. On the criterion for distinguishing between market and non-market production, it was agreed that there should be total flexibility unlinked with the criterion of 50 per cent coverage of production cost and that the criterion should depend on the nature of the product. The meeting was of the view that market producers should be classified in the corporations sector. The meeting reached no clear consensus on how to treat the differences when the output is considered a non-market production, whether they are considered part of government subsidies or government consumption.

6. Financial intermediaries: bank and insurance services

18. The experts discussed the material in the revised SNA relating to the concept of financial intermediaries, the replacement of imputed financial services by an imputed financial intermediation service charge and the statement that this charge should be allocated among uses on the basis of the difference between the interest rate actually received or paid and a central "reference" rate. The meeting welcomed this approach, although questions were raised as to the possibility of its practical implementation.

7. Imputations of rent on government buildings

19. The experts agreed on the necessity to impute rent for government use of the buildings it owns, but there was a difference of opinion on how the estimated rent value should be treated in the accounts and on the estimation of its intermediate consumption. Some proposed that the rental value should be considered as output and at the same time as government consumption, and that maintenance costs and other expenditures on such buildings should be considered as intermediate consumption of the nominal production unit in question.

B. Valuation of value added

20. The experts approved the simplification introduced into the valuation principles of products. There are now two types of distinctions in the valuation of products: (a) the distinction between basic prices and market prices, which refers to the exclusion and inclusion, respectively, of product taxes, and (b) the distinction between producers' and purchasers' prices, which refers to the exclusion and inclusion, respectively, of trade and transport margins. In their discussion of the valuation of final demand and value added, the experts agreed that outputs should be valued at basic prices and inputs at purchasers' prices.

C. Classification of assets

21. The experts studied the proposals referred to in the discussion paper and the relation between the asset boundary and the production boundary. They showed great interest in the classification of assets as produced and non-produced, and thus stressed the importance of measuring changes in net worth, a new concept in the accounts of the system. In connection with the coverage of produced assets, the experts considered a number of topics.

1. Research and development

22. Research and development expenditures were discussed in detail, and a number of different views emerged. They included the view that research and development expenditures should be regarded as current outlay classified in accordance with the sector in which it is made (intermediate consumption or final consumption, as in the case of the government sector, for example); and the view that a distinction should be made between expenditures on applied research leading to increased production for a period of more than one year, which should be considered as capital formation (assets), and between expenditures on other research and development, which should be considered as intermediate consumption.

2. Mineral exploration

23. In discussing this topic, the experts supported the recommendation that outlays on mineral exploration should be treated as capital formation, and this is the approach that has been used in the region.

3. Intellectual property

24. While many questions were raised on the issue, the meeting formulated no precise view with regard to intellectual property.

4. Software

25. The experts agreed that software, whether purchased at the time the hardware is purchased or independently, should be treated as capital formation, as proposed for the revised SNA.

5. Environmental assets

26. The experts agreed that the tentative classification proposed for environmental assets represented a sound point of departure for the study of this important subdivision. The experts proposed that environmental assets should be included in national balance sheet.

6. Natural growth

27. Some experts were of the view that natural growth cultivated by human effort should be counted as production whose value should be imputed at the time of harvest or use. Some were of the view that such production should be estimated annually on the basis of cost incurred.

7. Other assets

(a) Military durables

28. The experts considered military expenditure on durables, and there was a tendency to regard all military expenditure as consumption expenditure, as had been the case in the previous system. Another view was that items used by both soldiers and civilians, such as roads, airports, hospitals, schools and the like, should be included in capital assets and the remainder considered as final expenditure. Thus, capital formation would not be inflated by non-productive assets, a matter which was particularly important since military expenditure was at a high level in the region.

(b) Government stocks

29. The experts agreed that government stocks should include all goods, while understanding the practical difficulties involved.

8. Depletable resources

30. The meeting discussed depletable resources in detail in view of their importance for the Arab region. The meeting was of the view that the following points should be taken into consideration:

(a) Net income arising out of such resources and differentiation of gross product arising out of their transformation from a physical asset into a liquid financial asset;

(b) The importance of the valuation of depletable assets in resource accounts. While there was general agreement with regard to the importance of treating income arising out of such resources and the importance of taking account of the depletion factor, as is done in case of capital consumption, there was no consensus on a modality of treatment.

31. The discussion of the second point took two major directions. The first stressed the importance of preparing the relevant national accounts in accordance with two methods: one method was to take depletion into consideration and determining net value added after a deduction for depletion, then adjusting all the other accounts in accordance with that concept of value added (net national income, capital formation and net savings) and valuing depletion, reserves and total new value added at current value. The other view was that income accounts should continue to be treated as it was at present and that the depreciation or depletion of depletable resources should be reflected in the resource account by means of revaluation.

32. In either case, the meeting did not decide on the concept of net income or the depletion factor. A number of views were put forward centring on two concepts: the first defining net income by distinguishing between yield and net income on the basis of production cost, and the second defining net income in relation to the

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depletion factor on the basis of the proven reserve and total new value added at current financial value. The meeting strongly stressed the importance of the preparation of national balance sheets in view of their extreme importance, and it was of the view that the subject required more investigation.

D. Financial instruments

33. The experts considered the enormous developments taking place with respect to financial instruments, the impact of those developments on national economies in the region and the basis on which financial instruments should be treated in national accounts and balance-sheets, sectoral accounts or financial flow tables, which must necessarily be lined together. In this connection, the following points were discussed:

(a) Expanding coverage of the financial sector to include all units operating in the field of financial intermediation, as indicated in the proposed system, by including financial auxiliaries such as brokers and dealers together with financial intermediaries;

(b) The classification of unincorporated financial enterprises with the household sector. After discussion, the experts agreed with the proposed classification of financial intermediaries contained in the revised SNA. Some proposed that a special item should be established for the public treasury and that it should be separated from the government sector.

34. Experts were of the view that the major criteria for considering an instrument to be of a financial character are an unconditional commitment to pay and transferability. With regard to the most important of the new financial instruments, namely financial leasing, bankers' acceptances, repurchase agreements, zero-coupon bonds and hedging instruments, the experts welcomed the efforts made to define them and their inclusion in the category of financial instruments. They were of the view that the difference between the issue price and the value at maturity of zero-coupon bonds should be treated as a capital gain.

Insurance and pension funds

35. The experts were in agreement with the major revisions to the 1968 SNA with regard to the treatment of insurance and pension fund transactions.

E. Transfer of resources between countries

36. The experts discussed this item in the light of its special importance for the Arab economies, and they focused on the topics outlined hereunder.

1. Residence

37. The concept of residence is accorded particular importance in the Arab economies because of the wide-scale movement of labour among the Arab States and between them and the rest of the world, and it requires more detailed delineation in light of the dynamics of labour movement.

(a) Individuals

38. The experts agreed with the definition of residence given other than with respect to the application of the one-year rule. That would affect the accuracy of data, particularly those relating to external trade and balances of payments and, consequently, national income data. Many experts were of the view that flexibility should be used in the application of the time-period criterion and that other criteria should be added, such as income generated and the extent of the use made of and benefit derived from government services by persons present in the country. Some considered that the concept as expanded by the proposed criteria would achieve a harmonization among time series in statistics, whether with regard to balance of payments or national accounts. Some experts were of the view that refugees should be considered as residents.

(b) Enterprises

39. The participants did agree with the principle applied to enterprises, provided that the time stipulation was regarded with a degree of flexibility. There could be no harm in making use of other factors in establishing the resident status of an enterprise. Some participants raised the problem of the so-called "sponsorship" system, as it exists in the Gulf countries, where foreign enterprises engage in economic activity on a sub-contractual basis through a national, who is licensed to engage in such activity, against payment of agreed monetary sum on the understanding that he will sponsor those employed by the enterprise. Hence, the quality of residents applies to the individuals employed by such an enterprise but not to the enterprise itself.

(c) International organizations

40. The experts welcomed the treatment of the residency status of international organizations in the revised SNA.

(d) Foreign control

41. The experts were of the view that the definition proposed for the revised SNA is in keeping with economic conditions in the Arab countries and that it will assist in the analysis of activities. Some considered that there was a need to observe flexibility in determining the level of participation for joint enterprises, that it should not be limited to 50 per cent and that its determination should be left to each country in accordance with its own particular circumstances.

42. In another respect, the experts stressed the importance of treating offshore units and free zones as resident units, with a distinction being made between free zones with an inland orientation and free zones open to the outside world from the point of view of the objective and nature of the activity in which they were engaged, the former being economically lined with the sectors of the national economy while the latter were directly linked with the outside world.

2. Exports and imports of goods and services

43. The experts agreed that, in the revised SNA, the coverage of imports and exports and their component parts in both national accounts and the balance-of-payment system must be defined in an identical fashion. Accordingly, they approved the conclusions reached in the revised SNA with regard to the valuation of imports at f.o.b. prices, its adoption of change of ownership as the major criterion for the recording of transactions and the proposed treatment of exceptions relating to shipment of goods between the head office and its branch, shipment of goods between affiliated companies, goods shipped under financial lease arrangements and goods for processing and re-export. The experts supported the current trend towards expanding the coverage of non-factor services to include traditional items, such as transport and travel, and also those items that are becoming increasingly important in international transactions, such as financial services, communications services and information services, in view of the particular importance that they have begun to assume in the economies of the region.

3. Capital flows

(a) Investment of earnings

44. The experts discussed the manner in which undistributed earnings attributable to foreign direct investment should be treated in the case where they were reinvested in the host country. They agreed to the proposal that reinvested earnings should be included in the accounts as part of the receipt/payment of property income and concurrently as part of the increase in foreign financial/liabilities/assets in the external sector account.

(b) Bad debts

45. The treatment proposed in the new system is based on the distinction between debts in respect of which a decision on non-payment has been reached by contractual agreement between both parties. The experts agreed to the proposal that the latter should be treated as the cancellation of an external transaction and that the offsetting entry to the reduction in debt should be reflected under capital transfers. No agreement was reached on a modality for treating the former case, that in which non-payment is attributable to one side only, and it was considered that the treatment proposed might have some shortcomings.

46. The meeting agreed with the SNA proposal to the effect that the 1968 SNA treatment of arrears in debt payments should be retained, so that debit entries are recorded in the current and capital account, respectively, of the debtor, and

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contra-entry is shown in the financial account in respect of the credit which has been involuntarily provided to the debtor. With regard to debt/equity swaps, the meeting was of the view that their treatment required more thorough study.

(c) Gold monetization/demonetization

47. The experts agreed to the proposed classification of gold in the new SNA as monetary gold, namely that owned or controlled by the monetary authorities, and other gold, which is to be considered a commodity in accordance with the approach of the balance of payment systems. They also agreed to the proposal that the reclassification of monetary gold to commodity gold and vice versa should be reflected in the reconciliation account.

4. Valuation of external transactions

48. The experts agreed with the proposed treatments for the following items.

(a) Uniform exchange rates

49. When there is a single exchange rate for a foreign currency and the differential between the selling and buying rate is within reasonable limits, that is to say that there has been no change in the relative values of currencies, net proceeds should be classified as financial service charges. If, however, the differentials between the currencies are due to inflation or other factors, they should be treated as holding gains or losses and recorded as capital profits or losses.

(b) Multiple exchange rates as a result of a particular policy

50. In the case of multiple exchange rates, the experts agreed that the net proceeds accruing to the authorities as a result of transacting in the multiple rates should be treated as a tax or subsidy. The meeting discussed the proposed method of calculating the taxes or subsidies for each transaction, namely, the difference between the value of these transactions at the actual rate paid and the weighted average rate for all transactions in the external account, and a number of questions were raised with regard to the manner in which the weighted average rate was calculated.

(c) Black market exchange rate

51. The experts agreed that the black market exchange rate should be included in the calculation of the weighted average rate and the difference treated as a transfer.

F. Analysis of inflation

52. There was great interest in the discussion of the advantages and disadvantages of the various methods of measuring inflation. A comparison was made between the traditional formulae of Paache, Laspeyres and Fischer and the chain indices method,

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and none of the methods was recommended to be followed to the exclusion of the others. Four sets of views on the matters in question can be distinguished, and the basic concerns of each are summarized here.

53. The first group was of the view that, with regard to the aspect of creating product, direct deflation should be used in each sector, together with the need for the necessary data for doing so to be available. It considered that the elements of the system of national accounts and the related basic statistics provided the possibility of doing that. In the event that this desideratum is impossible to achieve, there is then no alternative but to deflate the general index number by weights reflecting the relative importance of commodities in their sectoral groupings while allowing for seasonal variations.

54. The second group considered that constant pricing operations should be linked with the objective they sought to achieve. In that case, the major goal of constant prices must be identified, whether it is to measure change in capacity to generate well-being or change in the production structure or its productivity. In that light, the choice between alternative measures depends on which of them is most suitable to achieving the objective of using constant prices. With regard to the treatment of external commodity price changes, the second group considered it important to distinguish between exports and imports and that it was accordingly necessary to deflate exports by the prices of imports.

55. The viewpoint of the third group centred around the importance of treating relative price changes and the need to take rates of exchange among sectoral groupings into consideration when deflating price changes for each group.

56. The viewpoint of the fourth group was that if the objective was to measure the purchasing power of income as an indicator of well-being, then it was best to abandon the concept of constant prices.

57. Despite the fact that time constraints prevented full discussion of the recommendation made in the revised system with regard to the treatment of price differences for identical products, quality changes, unique products and price and volume measures for non-market services, it is useful to indicate that these recommendations have been put into operation in the region.

G. Role of the household sector in the economic process

58. The experts discussed the role of the household sector in production, given that a large number of economic activities are carried out by households. The experts also discussed household sector production accounts, "mixed income" and entrepreneurial income, and a discussion took place of the socio-economic classification of households and the role of the government in financing consumption of households. The comments of the experts on some of the questions discussed at the meeting follow hereunder.

1. Classification and identification of households and private non-profit institutions

(a) Breakdown of households by socio-economic groups

59. The experts agreed to the sub-sectoring of the household sector by socio-economic groups so that the SNA accounts would contain the main elements of "Social Accounting Matrix". The experts further recommended that, in order to increase the analytical power of the social matrix, countries should use additional subdivisions in accordance with their own analytical needs, for example, classification of households by rural/urban, by educational level or by economic activity of the head of household.

(b) Formal versus informal activities

60. The experts considered how to distinguish between formal and informal activities, but no final decision was reached. It was agreed that the criteria for the distinction should be examined further and acceptable definitions adopted for use in national accounts in consultation with the International Labour Organisation.

(c) Allocation of non-profit institutions (NPIs) to sub-sectors

61. The experts agreed with the proposal that, in the revised SNA, NPIs serving households should be included in the household sector and that these institutions should be included with the institutional sectors which they serve.

(d) Valuation and classification of capital formation resulting from community activities

62. The experts discussed the modality for treating construction activities carried out collectively, for example, a road or school built by the people of a village. In that connection, the experts agreed that: (a) such outlay should be regarded as part of capital formation; (b) the activity should be treated as that of a non-profit institution; (c) in valuing output no imputation should be made for the voluntary labour, and that the finished asset should appear in the balance sheet of the sector responsible for its upkeep.

2. Consumption expenditure and disposable income

63. The experts discussed the differentiation of consumption expenditure, actual consumption and disposable income. They supported the approach of having an account for each of the consumption expenditure and disposable income in each sector and recording transfers in kind to the household sector as imputed income. They also agreed to the division of government consumption expenditure into administrative expenditure and social expenditure and on the need to distinguish "individualizable" expenditure, which benefits certain households, from collective expenditure, which benefits the society or the economy as a whole. The experts agreed with the recommendations contained in the revised system with regard to this item.

64. The experts also discussed expenditure of enterprises either for the benefit of their employees alone or for the benefit of the population as a whole, such as the expenditures on commercial television, radio and the press. The experts agreed that such expenditure should continue to be regarded as intermediate consumption and that expenditure for the benefit of employees should be taken into consideration when estimating the compensations in kind of the employees of the enterprises.

65. The experts reached no firm decision on whether government subsidies to market producers that would make certain goods or services available to the public at prices below the costs of production of those commodities should be considered as government consumption expenditure or as partial payments for the good or service.

H. Role of the public sector in the economic process

66. The experts discussed the nature of the public sector, its impact on the rest of the economy and the special character and importance of its role in the developing countries in general and in the Arab countries in particular. A discussion took place on the character of public enterprises and of transactions within the sector in the light of the criteria contained in the revised SNA with regard to the boundary and institutional structure of the sector and the control criterion required by its function of not only guiding economic activities and achieving the required equilibrium among them but also in treating the transfer of resources between countries.

67. There was general agreement that the SNA analysis of the sector should be as close as possible to that reflected in the International Monetary Fund (IMF) publication Government Finance Statistics (GFS) and that, with the retention of the SNA cash basis and the GFS accrual basis, a number of modifications would be necessary in order to link the two systems together and form a kind of "bridge" between the concepts employed in the preparation of government statistics and those employed in the preparation of national accounts estimates.

68. The treatment and classification of social security funds, social transfers and taxes and other public sector transfers proposed in the revised SNA are generally acceptable but should, however, be sufficiently flexible to enable each country to adapt them to the nature and functions of its own public sector and its structural classifications.

69. In the light of the above points, agreement was reached on the adoption of the same rules for identifying corporations, quasi-corporations and unincorporated units with respect to the public sector as those related to the household sector. Accordingly, government-owned, unincorporated public enterprises are treated separately from producers of non-market government services in the analysis of production and are not to be detailed in the sector accounts.

70. There was general agreement to treat corporate enterprises as public if the government owns the majority of their equity or exercises control over their economic behaviour. The experts agreed that the structural classification of

general government institutions could be modified in the way proposed by the revised system and that an intermediate level of government could be added between central and local government, thereby allowing greater flexibility in the practical application of the classification.

71. The experts agreed with the recommendation of the new system that flexibility should be introduced into the classification of social insurance and social security funds so that they could be classified, alternatively, as part of the level of government at which they operate or as a subsector separate from the other operations of all levels of government. No preference was expressed for either of these alternatives over the other.

72. The classification of government pension funds would continue to be treated as in the 1968 system since there was difficulty in changing it at the present time. It was felt that government employees' welfare schemes and unfunded pension schemes represented an extension of more generally applicable social security programmes, and the experts therefore agreed with the recommendation contained in the revised system that contributions to and benefits from such schemes are to be classified as social contributions and social benefits, respectively, rather than as other transfers paid to or by government.

73. With regard to taxes and other public sector transfers, the experts agreed with the recommendation of the revised system that the previous term "indirect taxes" should be replaced by the term "taxes on production and imports", the term "direct taxes" by the term "current taxes on income and wealth", the term "capital transfers to government", including estate and gift taxes and non-recurrent taxes on property, by the term "capital taxes", and the term "commodity taxes" by the term "taxes on products and other production taxes". Taxes on products would be broken down between taxes on imports and taxes on exports. Current taxes on income and wealth would be subdivided into taxes on income and other current taxes. Other current taxes would include recurrent taxes on property collected from non-business taxpayers, since recurrent taxes on property paid by businesses constitute a cost of production and are classified as other taxes on production. It is to be noted that the classification of taxes and transfers at the second and third levels contains sufficient flexibility to enable countries to adapt them to their prevailing tax legislation.

I. Accounting framework

1. Sequence of accounts

74. The proposed system provides a good sequence for the various major flows in the national economy depicting all stages of operations from production to balance sheets. These accounts are presented in a set of detailed (full sequence) accounts, a set of sectional accounts, a set of integrated accounts and a set of simplified accounts for the nation, which replace the Consolidated Accounts for the Nation in the 1968 SNA.

75. The meeting was of the view that the simplified accounts, although derived from the sectoral accounts, nevertheless did not show the role of each sector and its overall contribution to economic activity. Accordingly, the experts considered that this aspect should be taken into account and that the role of each institutional sector should be brought out in the simplified accounts.

2. Satellite accounts

76. The proposed system contains a set of satellite accounts in order to meet needs that are not provided for in the accounting framework. Since the experts were of the view that the human factor was basic to the production process, they proposed that the satellite accounts should reflect human services alongside the environmental accounts and any other satellite accounts.

3. Links with other systems of statistics

(a) Balance of payments

77. With regard to the relation between balance of payments and national accounts, the experts supported the approach calling for a harmonization of the two systems with regard to concepts and definitions. The problem was raised of the relation between a system based on the physical movement of goods into and out of a country and the information contained in the balance of payments, which is based on actual currency exchange records given the inability of central banks and banking institutions to provide detailed information on operations involving the actual physical movement of goods. The experts also pointed to the difficulties encountered by central banks and banking institutions in providing detailed information on unrequited transfers or the income of factors of production. It was also pointed out that in the case where data on exports and imports were taken from customs statistics, the difference between them and the data contained in the balance of payments should be considered as change in stocks.

(b) Financial flows

78. The experts stressed the importance of financial flows as a complementary section within the framework of national accounts. Some suggested that there should be an item for the public treasury within the financial intermediaries sector. The experts further discussed expanding means of payment and using methods of estimation (imputation) for certain financial flows in order to achieve a balance between imputed values and financial flows.

(c) Input-output

79. The experts studied the close relationship between input-output tables and national accounts. They agreed that national accounts were a comprehensive framework which included input-output tables, and some experts stressed the importance of preserving the divisions by institutional sector within the sectoral structure in the table.

(d) Trade accounting systems

80. In this connection, the discussion addressed itself to the experiment carried out by the League of Arab States (the Industrial Development Centre at that time) and a number of experts from the Arab States in linking the flows of the 1968 SNA with the corresponding items in the unified accounting system. The meeting considered it important that this idea should be adopted, and it called for efforts to be made to link trade accounting systems with the revised SNA.

Annex

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